



2016 Annual Report



BCV at a glance

2016 highlights

We continued to post solid results despite the ongoing negative-interest-rate environment and lackluster financial markets

- Volumes were up slightly in most core businesses, helped by the resilience of the Vaud economy.
- However, total revenues were pulled down to CHF 967m due to persistently negative interest rates, lackluster financial markets, and a realignment of our offshore private banking business on a select group of countries.
- Operating profit came in at a solid CHF 383m thanks to firm cost control, lower depreciation and amortization, and a decrease in other provisions.
- At CHF 310m, net profit was down 8% from the 2015 figure, which had been pushed up by non-recurring items, but net profit was nevertheless higher than in 2013 and 2014.

BCV's credit ratings were reaffirmed, underscoring our financial solidity

- For the fifth year running, Standard & Poor's reaffirmed our long-term rating of AA and a stable outlook.
- Moody's also reaffirmed the Aa2 rating it had assigned to BCV in 2015, with a stable outlook.
- BCV thus remains one of the best rated banks in the world without an explicit government guarantee.

We continued to improve our key processes as part of *stratégie2018*

- We carried out several initiatives aimed at improving the customer experience: we cut down on the time it takes to process mortgage applications, introduced a system that lets customers renew their mortgages online, and rolled out a fully online investment solution.
- We took a stake in the new company TWINT SA, which merges Swiss mobile payment systems Paymit and TWINT.

Our shareholders received CHF 33 per share

- We paid an ordinary dividend of CHF 23 per share, up from CHF 22 in 2015, and distributed CHF 10 per share out of paid-in reserves, thus returning a total CHF 284m to our shareholders.
- This payout, together with the appreciation in our share price, equates to a total return of +6.5% – once again one of the best among banking stocks listed on the SIX Swiss Exchange.

Key figures – 5-year overview

in CHF millions

| Balance sheet ¹ (in CHF millions) | 2012 | 2013 | 2014 | 2015 | 2016 |
|--|--------|--------|--------|--------|--------|
| Total assets | 39 483 | 40 177 | 41 819 | 43 418 | 44 085 |
| Advances to customers | 27 829 | 28 729 | 29 720 | 29 457 | 29 849 |
| Customer deposits | 26 544 | 27 557 | 28 532 | 28 877 | 29 245 |
| Shareholders' equity | 3 315 | 3 322 | 3 341 | 3 397 | 3 420 |

Assets under management² (in CHF millions)

| | | | | | |
|----------------------------------|--------|--------|--------|--------|--------|
| Assets under management | 79 129 | 83 850 | 86 382 | 87 972 | 85 382 |
| <i>cash and cash equivalents</i> | 23 369 | 24 469 | 24 547 | 24 900 | 26 009 |
| <i>shares</i> | 18 634 | 20 831 | 22 223 | 22 891 | 21 588 |
| <i>investment funds</i> | 17 156 | 18 120 | 20 064 | 21 164 | 19 812 |
| <i>bonds</i> | 15 713 | 15 207 | 14 182 | 13 156 | 11 029 |
| <i>other</i> | 4 257 | 5 223 | 5 366 | 5 861 | 6 945 |

Headcount

| | | | | | |
|-----------------------|-------|-------|-------|-------|-------|
| Full-time equivalents | 1 931 | 1 987 | 1 946 | 1 947 | 1 943 |
|-----------------------|-------|-------|-------|-------|-------|

Income statement¹ (in CHF millions)

| | | | | | |
|--|-------|-----|-------|-------|-----|
| Total income | 1 015 | 999 | 1 010 | 1 026 | 967 |
| Operating expenses | 525 | 520 | 518 | 514 | 509 |
| Depreciation and amortization of fixed assets and impairment on equity investments | 86 | 86 | 80 | 76 | 72 |
| Other provisions and losses | 3 | 41 | 34 | 37 | 3 |
| Operating profit | 401 | 353 | 379 | 399 | 383 |
| Net profit | 311 | 280 | 296 | 336 | 310 |

Ratios³

| | | | | | |
|-----------------------------------|-------|-------|-------|-------|-------|
| Liquidity coverage ratio (LCR) | n/a | n/a | 105% | 111% | 113% |
| Leverage ratio | n/a | n/a | 6.8% | 6.7% | 6.6% |
| Tier 1 capital ratio ⁴ | 18.4% | 17.8% | 17.1% | 17.6% | 16.8% |
| Total capital ratio ⁴ | 18.4% | 17.9% | 17.2% | 17.7% | 16.9% |

Income ratios

| | | | | | |
|--|-------|-------|-------|-------|-------|
| Operating profit/average shareholders' equity | 12.3% | 10.8% | 11.5% | 12.0% | 11.4% |
| Cost/income ratio ⁵ | 60.0% | 60.6% | 59.6% | 57.2% | 59.4% |
| Operating profit per employee (in CHF thousands) | 203.2 | 180.5 | 192.2 | 205.5 | 197.1 |
| ROE | 9.5% | 8.5% | 9.0% | 10.1% | 9.1% |

Credit ratings

Standard & Poor's

| | | | | | |
|------------|---------------|-------------|-------------|-------------|-------------|
| Long term | AA / negative | AA / stable | AA / stable | AA / stable | AA / stable |
| Short term | A-1+ | A-1+ | A-1+ | A-1+ | A-1+ |

Moody's

| | | | | | |
|------------|-------------|-------------|-------------|--------------|--------------|
| Long term | A1 / stable | A1 / stable | A1 / stable | Aa2 / stable | Aa2 / stable |
| Short term | Prime-1 | Prime-1 | Prime-1 | Prime-1 | Prime-1 |

- 1) As of the 2015 financial year, the financial statements are presented in accordance with the new Swiss accounting rules for banks; the figures for the previous years have been adjusted to facilitate like-for-like comparison
- 2) 2012 figures for assets under management were adjusted to exclude custody-only assets
- 3) More detailed information on Group and parent company liquidity and capital ratios can be found in the Basel III Pillar 3 report, which is available at www.bcv.ch and on the BCV Investor Relations iPad app.
- 4) Determined according to the Basel III approach since 1 January 2013
- 5) Excluding goodwill amortization and write-downs

Starting in 2011, we decided to replace the end-of-year gift to our 2,000 employees with a donation on their behalf to a humanitarian project somewhere in the world. A group of around ten employee volunteers chosen every year selects the projects and follows up on them.

The first organization to receive funding under this initiative, known as BCV Solidarity, was the Swissclinical Foundation in La Tour-de-Peilz. Thanks to our donation in 2012, the Foundation was able to purchase a building and equipment for making orthopedic implants for poor handicapped children in Stara Zagora, Bulgaria.

In 2013, our donation went to the Nyon-based charity Friends of India to help build a new school in Tirunelveli, in the southern Indian state of Tamil Nadu. The school – named BCV International School in recognition of the Bank – was inaugurated in 2014. Today it provides an English-language education to 480 students between the ages of 3 and 16. The students include both boys and girls and are drawn from a variety of castes, in order to promote tolerance.

In 2014, BCV Solidarity helped Lausanne-based charity Achalay refurbish a small farm in San Andrés, Peru. The farm is home to some fifty underprivileged 4 to 18 year-olds (orphans, abuse victims, and handicapped children) from the surrounding areas.

In 2015, the employee volunteers chose to support Les Enfants de l'Arc-en-Ciel charity in Lausanne. Thanks to our donation, the charity was able to expand its school in Cabrera, Dominican Republic, which provides an education to more than 200 disadvantaged children. A

fourth schoolhouse has been constructed to supplement the existing facilities and make enough space for pupils to complete all 12 classes necessary to prepare for university.

Last year our employees selected a project run by the Morija Association, which is based in Le Bouveret. The funds will be put towards helping the association to expand the Kaya Center for the Handicapped in Burkino Faso. Located in one of the world's poorest countries, where disabled people make up 10% of the population, the center aims to ensure the functional and social rehabilitation of those living with physical disabilities and to take measures to prevent such disabilities from occurring. The center receives hundreds of patients every year, roughly half of whom are under the age of 20. To expand the center, two new buildings will be constructed by the fall of 2017, one of which will be a hospital offering another 30 beds on top of the 74 currently available, and the other will comprise a laboratory, pharmacy, and storage area.

A particularly noteworthy aspect of the project is that under the plans drawn up by Geneva-based architect firm NOMOS, the new buildings will be constructed according to local needs and practices. There will be no concrete or corrugated iron. Instead, mudbricks and stone – which are readily available on site – will be used to construct the buildings using the traditional Nubian vault technique. As a result, the buildings will blend in with their environment and be properly insulated and built to last, thereby meeting the criteria of sustainable development. Last but not least, the work will be carried out by local firms, which will create jobs first in the construction business and subsequently in the renovation and maintenance sectors.

Contents

| | |
|---|-----|
| Letter from the Chairman and the CEO | 4 |
| Who We Are | 8 |
| Overview of BCV | 8 |
| Corporate Responsibility: BCV's Missions | 11 |
| Year in Review | 20 |
| Economic Environment | 20 |
| BCV in 2016 | 32 |
| Business Sector Reports | 38 |
| Risk Management | 48 |
| Corporate Governance | 60 |
| The BCV Share | 92 |
| Financial Statements | 96 |
| Report on the Consolidated Financial Statements | 98 |
| Consolidated Financial Statements | 103 |
| Parent Company Financial Statements | 158 |
| Organization Chart | 188 |
| Retail Network | 190 |
| Regional Managers | 191 |
| Branch Offices | 192 |

Letter from the Chairman and the CEO

Continuity and stability in a difficult environment

Despite the unexpected events of 2016, the world economy continued to show moderate growth. The gradual improvement in the global macro environment would thus seem to be reasonably well entrenched, although major challenges remain. And here in the Canton of Vaud, the local economy proved once again to be both adaptable and resilient against the backdrop of a persistently strong Swiss franc.

The business environment in banking was less favorable in 2016 in terms of both interest rates and equity markets. The yield on ten-year Swiss government bonds made a brief foray into positive territory, but otherwise interest rates were negative all year long, and the Swiss stock market delivered a mixed performance.

Nevertheless, BCV turned in another strong showing, with earnings higher than they had been in 2013 and 2014. Business volumes were up slightly compared with 2015. But negative interest rates and lackluster financial markets weighed on revenues, which were down 6% to CHF 967 million. Operating expenses came to CHF 509 million, down 1%. As we predicted last year, operating profit and net profit declined in 2016 in the absence of the non-recurring items that lifted earnings in 2015. Operating profit dropped 4% to CHF 383 million, and net profit came in at CHF 310 million, down 8% on the strong 2015 number but still above the CHF 300 million mark.

Digital channels and quality service

Beyond these financial results, our 2,000 employees scored new successes under *stratégie2018*, our strategic plan to



Pascal Kiener
CEO

Olivier Steimer
Chairman of the Board of Directors

deliver continuous improvement in customer service and operational efficiency, seamlessly integrate all distribution channels, and offer a broader range of digital options. Achievements in 2016 included shortening the time it takes to process mortgage applications; since early this year customers have also been able to renew their mortgage loans online. For our corporate customers, we simplified the process for granting and managing loans, and for our bank operations as a whole, we adopted a faster, more systematic process for handling customer claims. In mobile payments, BCV joined the other major Swiss banks to become a shareholder of TWINT SA, a new company that merges Swiss mobile payment systems Paymit and TWINT. A new BCV TWINT app will be available by summer 2017. We also rolled out a number of other initiatives both large and small – and even the smallest are designed to improve the service we offer customers.

Other key developments

We geared up in 2016 for the Common Reporting Standard (CRS) under the automatic exchange of information requirements that took effect in Switzerland on 1 January 2017. We also realigned our offshore private banking business on a select group of neighboring countries that have either already adopted the CRS or are in the process of doing so.

Peter Ochsner took up his position as a member of BCV's Board of Directors on 1 July 2016, having been appointed by the Vaud Cantonal Government. He took over from Stephan A. J. Bachmann, also replacing him as Chairman of the Audit and Risk Committee. At the Shareholders' Meeting on 21 April 2016, Jack G. N. Clemons was elected to BCV's Board of Directors for a four-year term to replace Pierre Lamunière. Christian Meixenberger joined our Executive Board on 1 January 2017, taking over responsibility for the Business Support Division from Aimé Achard, who has retired.

Another strong return from the BCV share

Despite the decline in the Swiss stock market, the BCV share stood out once again for its strong performance, rising 1.3% in 2016. Factoring in dividends, the total return came to 6.5%, putting our share among the banking sector's top performers and confirming yet again the Bank's excellent fundamentals.

A solid bank well ahead of regulatory requirements

BCV comfortably meets all regulatory requirements. With a Common Equity Tier 1 (CET1) ratio of 16.8% and a leverage ratio of 6.6%, our finances are solid. Since 2011 we have been one of only a few dozen banks to earn a long-term rating of at least AA by Standard & Poor's, and in December 2016 S&P maintained this rating, with a stable outlook. In May and again in December, Moody's reaffirmed its Aa2 rating with a stable outlook. Moreover, we ended the fourth quarter with a Basel III liquidity coverage ratio (LCR) of 113% – well above the 70% minimum for 2016.

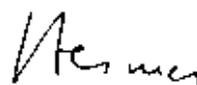
Proposed payout of CHF 33 per share

In keeping with the distribution policy we renewed four years ago, the Board of Directors will recommend an ordinary dividend of CHF 23 per share – unchanged from last year – plus a special distribution of CHF 10 per share out of paid-in reserves. If this proposal is approved, shareholders will receive CHF 33 per share, for a total payout of CHF 284 million.

New Chairman of the Board of Directors

The Vaud Cantonal Government has appointed Jacques de Watteville as the new Chairman of BCV's Board of Directors. A Vaud resident who was born in Lausanne, Mr. de Watteville was most notably State Secretary for International Financial Matters between 2013 and 2016. He will replace Olivier Steimer, who has chaired the Board since 2002 and who will step down on 31 December 2017.

On behalf of the Board of Directors and Executive Board, we would like to express our sincere thanks to all of our customers and shareholders for their loyalty and confidence. We would also like to thank our employees, whose continued commitment, day after day, enables us to offer the very best products and services and to deliver lasting, profitable growth.



Olivier Steimer



Pascal Kiener





Who We Are

Overview of BCV

Our legal status

Banque Cantonale Vaudoise (BCV) was founded on 19 December 1845 by the Vaud Cantonal Parliament (Grand Conseil Vaudois) as a société anonyme de droit public (i.e., a corporation organized under public law). The Canton of Vaud is BCV's majority shareholder, with 66.95% of the Bank's share capital. BCV is listed in the Vaud Commercial Register and is subject to all applicable legislation. Its legal status is defined in the Cantonal Act Governing the Organization of Banque Cantonale Vaudoise (LBCV) of 20 June 1995, as amended on 25 June 2002, 30 January 2007 and 2 March 2010. BCV's commitments are not underwritten by the Canton. However, customer deposits are covered by a nationwide system of investor protection concerning Swiss banks and securities dealers. This system insures deposits of up to CHF 100,000 per person and per bank. In addition, a limited cantonal guarantee applies to deposits with Caisse d'Épargne Cantonale Vaudoise, a savings institution managed by the Bank.

Our core businesses

With revenues of CHF 967m in 2016 and total assets of CHF 44.1bn, we rank among Switzerland's top five banks by assets. BCV is the country's second-largest cantonal bank and the largest bank in Vaud, with a network of over 60 staffed branches and some 230 ATMs throughout the Canton. The Bank's organizational structure is based on four client-oriented divisions: Retail Banking, Private Banking, Corporate Banking and Asset Management & Trading. We offer a comprehensive range of financial services to all client segments. BCV Group had 1,943 full-time-equivalent employees at 31 December 2016. At that date, in addition to the parent company, BCV Group comprised the private bank Piguet Galland & Cie SA and two fund management firms, Gérifonds SA and GEP SA (Société pour la gestion de placements collectifs). The full scope of consolidation at 31 December 2016 is described on page 125.

Our missions

Pursuant to Article 4 of the LBCV, BCV's corporate mandate is to offer a comprehensive range of banking services to the local community and to contribute to the development of all sectors of the Vaud economy and to the financing of the Canton's public-sector institutions and entities. Also, as part of our community focus, we provide mortgage financing in Vaud. The LBCV also stipulates that BCV is to be guided by the principles of economically, environmentally and socially sustainable development. More generally, our missions are to create value for our shareholders and clients, to be a benchmark employer, and to be a good corporate citizen.

Our recent history

Since the Bank was founded in 1845, it has considerably expanded its business in the Canton. In the 1990s, the banking industry in Vaud underwent major consolidation. BCV acquired Banque Vaudoise de Crédit in 1993 and merged with Crédit Foncier Vaudois in 1995. From 1996 to 2000, we moved to diversify our operations, particularly in international trade finance, offshore wealth management, and trading. Total assets more than doubled between 1990 and 2000 as a result. In 2001 and 2002, following an in-depth assessment of loan-book quality, BCV Group carried out two recapitalizations, in 2002 and 2003. The Canton provided most of the funds raised on both occasions.

From 2003 to 2005, we successfully refocused operations on our four core businesses while remaining active in selected niche activities offering strong potential in terms of both growth and profitability. From 2005 to 2008, we implemented the second phase of our strategy, the *CroisSens* growth project, with the aim of taking full advantage of our unrivaled presence in our local market, the Canton of Vaud. This project included the reorganization of our local distribution structure into nine regions in order to strengthen ties with customers.

In 2007, the Bank repurchased the final tranche of participation-certificate capital created in the 2003 recapitalization. On 15 April 2008, the Vaud Cantonal Parliament voted to authorize the Cantonal Government to reduce the Canton's stake in our share capital from 66.95% to 50.12%. The Cantonal Government's decision not to sell any shares, first announced on 25 November 2008 and reaffirmed on 16 July 2010, remains unchanged.

From the end of 2008 to the end of 2013, we implemented our *BCVPlus* strategy, which took a clearly defined and differentiated approach based on the business model of a universal bank with solid local roots. This strategy was a great success: almost all of the Bank's business lines grew, and through a series of internal initiatives we instilled a performance-based corporate culture and promoted ongoing skills development. We are convinced that operational excellence is a key factor in setting ourselves apart from the competition and driving our success. With this in mind, we introduced measures to simplify our processes, improve customer service and revitalize our sales and marketing approach. Active equity capital management was also a part of *BCVPlus*, with an attractive distribution policy for our shareholders.

As part of the growth strategy for the onshore wealth management business, BCV Group acquired Banque Franck Galland & Cie SA in 2011. This bank was merged with Banque Piguet & Cie SA, a BCV subsidiary since 1991, creating Piguet Galland & Cie SA, a major wealth manager in French-speaking Switzerland.

In 2013, the Board of Directors and Executive Board once again conducted an in-depth review of the Bank's strategy and trends in the banking sector in general. Management confirmed that the next phase of our strategy – *stratégie2018* – would continue on the same course as *BCVPlus*. In addition, we will aim to make impeccable service quality our differentiating factor, look for new ways to improve our internal operations, and take account of changes in the regulatory environment and customer expectations.

Our strategy

Our business strategy is guided by our ultimate goal of creating value for shareholders, clients and employees. Our business model is that of a universal bank with solid local roots, and we believe that this is the best way to ensure profitable growth going forward. Our operations are focused on the Bank's four core businesses, but we remain active in selected niche activities offering potential in terms of both growth and profitability. Our risk profile is moderate, and we take an active approach to equity capital management.

In 2014 we began implementing the current phase of our strategy, *stratégie2018*. Like the previous phase, *stratégie2018* aims primarily to continue developing all of the Bank's business lines. We also intend to make impeccable service quality our differentiating factor, further improve our internal operations, and adjust our business-line strategies to take account of rapid changes in the regulatory environment. In addition, we will be working to better meet our customers' changing needs and expectations, by achieving greater integration among our various distribution channels – our branches, ATMs, call centers, website and apps for tablets and smartphones.

We aim to keep up the positive trend in our various businesses. In particular, we are targeting:

- At-or-above market-rate growth in the retail banking and SME segments
- Above-market growth in onshore private banking
- Pursuit of niche growth drivers in asset management, structured products and trade finance
- Continued development of our other business lines.

We are also working to improve our internal processes and sharpen our focus on the customer experience. This involves:

- Improving customer-service quality through a series of targeted initiatives
- Expanding multi-channel access to our products and services
- Embarking on various projects to enhance our internal operations
- Pressing ahead with our human resources strategy to continue developing our employees' skills sets.

In early 2013, we adjusted our key financial objectives and our distribution policy. In the prevailing low-interest-rate environment, the Group aims to achieve sustainable growth, with revenues and operating profit trending along the same lines as in recent years. We have set targets of 12–13% for ROE, 57–59% for the cost/income ratio, and 13% for Core Equity Tier 1 (CET1). These targets should be viewed from a long-term perspective.

The Bank intends to pay an ordinary dividend of CHF 22–27 per share, as well as a special distribution of CHF 10 per share out of paid-in reserves. In early 2013, we announced that we planned to maintain this distribution level for the following five years, barring any significant changes in the economic or regulatory environment or in the Bank's situation.

Our values

We have defined four values that are central to our strategy and culture: responsibility, performance, professionalism, and close ties with our customers and the broader community. We believe that a key to long-term success is ensuring that all our employees share a common culture built around core values. The values described below underpin all our actions – as well as our interactions with customers and colleagues.

Close ties

As a Swiss cantonal bank, BCV maintains a deep connection with the local community that goes back a century and a half. Our employees use their on-the-ground presence in Vaud Canton and knowledge of the local community to fully appreciate and understand the needs and expectations of BCV's customers.

Professionalism

Every employee is committed to delivering the best possible service to customers. To achieve this, our people draw on the best practices in their respective fields of expertise and constantly seek to expand their skills and knowledge.

Performance

At BCV, we set ourselves ambitious goals across the board. Our people are results-oriented. They systematically seek pragmatic and effective solutions to the challenges that arise every day.

Responsibility

BCV employees demonstrate responsible professional behavior. This includes taking responsibility for their actions, being conscientious in their work and being loyal to the company.

Given the importance that we ascribe to our core values, we have put in place a long-term employee information and training program. Our values are also an integral part of employee performance reviews.

Who We Are

Corporate Responsibility: BCV's Missions

In accordance with the Cantonal Act Governing the Organization of Banque Cantonale Vaudoise (LBCV) and our role as a modern company mindful of our duties and obligations, we have defined a series of objectives in the area of corporate social responsibility:

1. Contributing to the development of all sectors of the economy of our home region, the Canton of Vaud, and to the financing of public-sector entities, and helping to meet demand for mortgage lending in the Canton.
2. Meeting our clients' needs with high-quality financial products and services.
3. Paying particular attention to the principles of economically, environmentally, and socially sustainable development.
4. Creating lasting value for shareholders.
5. Being a benchmark employer.
6. Playing an active role in the community.

1. Contributing to the economic development of the Canton of Vaud

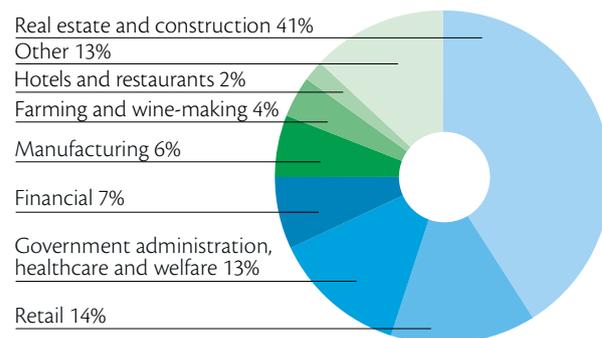
At BCV, we are proud to be the leading bank in Vaud. The surveys and studies we regularly conduct to assess our market position, along with the fact that half of the Canton's people and companies bank with us, show that we are an integral part of life in Vaud. Thanks to our concerted and ongoing efforts to improve service quality, and despite increasingly fierce competition, BCV is perceived as solid, reliable and competent. Indeed, since the 2008–2009 financial crisis we have witnessed a significant influx of new funds as a result of expanded

business with existing clients and the arrival of many new clients.

Our strong market presence in the Canton is the result of several factors: our extensive on-the-ground presence, our understanding of the needs of both individual and business customers, our know-how, our professionalism, and our responsible approach to banking. As the leading bank in Vaud Canton and in accordance with Article 4 of the LBCV, we are committed to contributing to the development of all sectors of the economy across our home region and to the financing of public-sector entities, as well as to helping meet demand for mortgage lending in the Canton.

As part of our *BCVPlus* strategy, we adopted several concrete initiatives between 2009 and 2013 to align ourselves more closely with the needs of our individual and corporate clients. This includes ongoing improvements to our products and services. These efforts are continuing as part of *stratégie2018* and we have already implemented improvements in several areas. We shortened the time it takes to process mortgage applications; since early this year customers have also been able to renew their mortgage loans online. For our business customers, we simplified the process for granting and managing loans, and for our

Business loans by sector



Source: BCV

bank operations as a whole, we adopted a faster, more systematic process for handling customer claims so that we can learn from customer feedback. We also rolled out a number of other initiatives both large and small – and even the smallest are designed to improve the service we offer customers.

Close ties with our customers

Our local presence is of key strategic importance. We are the Canton's top employer in banking and the most widely accessible bank in Vaud thanks to our dense retail network, which includes nine regional centers of expertise and over 60 branch offices across the Canton (see our retail map and list of branch addresses on pages 190–193). We also offer automated services through our 230 ATMs in over 120 locations around Vaud. Most are next-generation machines featuring touch screens for greater ease of use. In 2016, around 10 million transactions were carried out via our ATMs.

We believe that this network is the right size to effectively meet the needs of the dynamic and diversified community and economy that we serve. And we continue to enhance our branch network each year to meet those needs. Between 2006 and 2013, most of our branch offices were partially or totally renovated, with the aim of making them more comfortable and user-friendly for our customers. This program came to an end with the refurbishment of our head office at Place Saint-François in Lausanne. Since then, we have carried out several smaller renovation projects. In 2016, work on our Lutry branch and on the building that houses our Vevey branch was completed, and renovations started on our Aigle branch.

Being close to our customers also means being increasingly accessible and in step with changing lifestyles. This is reflected in the convenient opening hours of our branches, with appointments for financial advice available Monday through Friday from 8am to 7pm and on Saturday mornings in some of our shopping center branches. Individuals and businesses can also contact us by telephone or email. Our Customer Service Center is available every weekday from 7:30am to 7:30pm. In 2016, it handled more than 365,000 incoming calls and over 135,000 emails. Our business banking hotline for Vaud companies and the self-employed is available between 8am and 6pm, Monday to Friday. This service handled more than 93,000 enquiries in 2016.

We also provide 24/7 access to our services through our BCV-net e-banking platform and our network of ATMs. BCV-net is very popular: 46% of our customers use it, and nearly eight out of every ten payments are made via this platform. In addition, the use of our BCV-net mobile app, which offers access to BCV-net from iPhones, iPads and Android devices, is on the rise. The mobile app allows customers to view balances and transactions on current accounts, securities accounts, and debit and credit cards, and to make all types of payments. In 2016, our mobile app was used by individual customers for over 47% of their e-banking sessions.

BCV-net was enhanced with several new features last year, such as a tool to help customers manage their budgets and a log-in system with an extra layer of security. And as of early 2017, customers can renew their mortgage loans directly on BCV-net. BCV-net mobile app users can make person-to-person payments via the Paymit mobile payment system. Following the merger of Paymit and TWINT in 2016 to form TWINT SA, new functions will be added to the payment system by summer 2017. These include the ability to make in-store purchases and to pay with retailers' loyalty cards.

BCV's TradeDirect platform remains one of the most competitively priced online trading services in Switzerland. The www.tradedirect.ch website provides access to 25 stock exchanges and over 100,000 investment vehicles, and has powerful market-tracking, search and analytical tools. A mobile trading app for iPhones and Android smartphones is also available. With this app, users can enter orders, manage their portfolios, track individual stocks, stay up to date with the latest market news, and view ratings and analyses provided by research firm TheScreener.

We added a number of features to our website last year after completely overhauling it in 2015. It now includes an investment proposal generator that determines the most suitable asset allocation fund for an investor's portfolio based on his or her risk profile. Investors can then select and buy fund units directly online through BCV-net. Our website also includes a new service that lets clients request a call-back from one of our customer service representatives.

Real estate listings website www.newhome.ch, used by BCV and 17 other cantonal banks, has been completely revamped and the number of listings has increased thanks

to partnerships with other property listing services. The number of visits by people looking for Vaud properties more than doubled in 2016.

These various physical and digital distribution channels allow us to offer rapid, practical and efficient services that can be accessed anywhere and at any time depending on our customers' needs.

81% of our lending is local

Our loan book covers all areas of the Canton, with the people and businesses of Vaud accounting for 81% of total lending volumes.

At end-2016, 54% of our outstanding customer loans were to individuals, and 46% to companies across all sectors of the economy as well as public-sector entities. The dedication and enthusiasm of our staff enabled us to maintain our market share despite increasingly stiff competition.

Working with clients in difficulty

In line with our mission, we aim to continue our relationship for as long as possible with individuals and businesses that, for one reason or another, run into temporary difficulties. Specialized staff work with these clients in order to find solutions that will help them restore their financial stability.

Naturally, continuing the business relationship is only possible if the company or individual can be reasonably expected to return to a sustainably sound financial position

without any distortion of competition. Our procedures in this respect follow clearly defined rules that meet the highest ethical standards.

We are also continuing efforts to keep impaired loans to a strict minimum of around 1% of our total loan portfolio. We have shown that we can manage difficult cases effectively by looking for constructive solutions and working proactively on a case-by-case basis.

2. Meeting our clients' needs

We constantly strive to satisfy the changing needs of our customers – individuals, businesses, pension funds and public-sector entities. Our products and services cover the full range of banking requirements.

In Retail Banking, we enhanced our banking services for young people and now offer special packages for customers up to the age of 30, even if they are no longer students. Young customers can also start saving for retirement early with our Epargne 3 Youth Account, which offers an interest rate 0.5% higher than the basic Epargne 3 rate.

All individual customers, regardless of their wealth, can also receive comprehensive financial planning advice and wealth management services. In Wealth Management, we offer a full range of banking and investment solutions and advisory services. Clients very much appreciate the availability of our advisors across the Canton, with whom they can discuss the economic and financial environment. In addition, every year we hold four roundtable discussions

Comparison of mortgage loans, other loans and workforce distribution, by region

| | Broye | Lavaux | Nord Vaudois | Nyon | Morges | Riviera | Chablais | Gros- de-Vaud | Lausanne |
|------------------------|-------|--------|-----------------|------|--------|---------|----------|------------------|----------|
| Mortgages | 4% | 11% | 14% | 17% | 11% | 11% | 7% | 9% | 15% |
| Other loans | 5% | 7% | 18% | 14% | 11% | 8% | 11% | 12% | 14% |
| Workforce distribution | 3% | 4% | 11% | 10% | 9% | 9% | 5% | 5% | 43% |

Sources: BCV; Statistique Vaud

Mortgages: real-estate lending including fixed-term loans secured by mortgage

Workforce distribution: Structural Business Statistics, 2014

called “Les Rendez-vous de la Finance” that attract hundreds of private investors looking for insights into key business and market trends.

In Corporate Banking, BCV's offering covers a wide range of products and services, from financing and treasury management to occupational pension solutions and advisory services. That means we can meet the needs of a very diverse clientele, from artisans serving the local market to multinationals conducting business the world over. In 2016, we created a line-up of no-fee services for companies that are less than two years old to help them get off the ground. We also kept our corporate clients informed of the upcoming changes to Switzerland's payment transaction system. We intend to support our clients through every step of this changeover all the way until it is completed in 2020.

In Asset Management and Trading, we offer a wide range of investment products, from investment funds and structured products to management mandates and asset allocation funds. 2016 was marked by persistently low interest rates – yields on Swiss bonds up to a maturity of ten years were in negative territory for most of the year – and by political events that triggered bouts of market volatility. But BCV's funds and other investment products generated good returns despite the turmoil, both in absolute terms and relative to their benchmark indices.

Given the current and upcoming regulatory changes affecting financial products, we are adapting our service model and product range accordingly. Our aim is to ensure that all individual and corporate customers are well informed, protected and provided with high-quality service through our physical and digital distribution channels.

3. Acting on the principles of sustainable development

Sustainable development is one of the core principles framing our activities. Article 4 of the LBCV stipulates that BCV must pay particular attention to the three pillars of sustainable development: economic development, social development and environmental protection. We are therefore mindful of the impact that our activities may have, and we have a longstanding commitment to these principles. Both our Social Responsibility Report, which we publish every two years, and our current corporate communications campaign highlight the impact of our

activities on the Canton.

Economic development is, of course, fundamental for a bank. As part of this, BCV works with companies through every stage of their development: from start-up and growth to maturity and succession. Our partnerships with growing and mature businesses are well known, but our role in business creation and succession is less so. In 2016, we provided around CHF 12m in financing to get 59 startups off the ground in Vaud Canton.

In addition, BCV joined Innovaud, the Vaud Cantonal Government's platform for promoting innovation in Vaud Canton. As part of the Innovaud project, we have committed CHF 5 million in financing to the Foundation for Technological Innovation (FIT).

To help encourage budding entrepreneurs in Vaud, for the fourth year in a row BCV organized the Silicon Valley Startup Camp in association with the University of Lausanne (UNIL), the Swiss Federal Institute of Technology in Lausanne (EPFL), the Canton's universities of applied sciences, the Vaud Chamber of Commerce and Industry (CVCI) and the FIT. Ten students from these local colleges and universities were given the chance to spend a week soaking up the atmosphere of Silicon Valley. They followed a packed schedule of university visits, meetings and workshops, all organized by Swissnex, a Swiss organization based in San Francisco whose mandate is to strengthen ties between Switzerland and North America in the areas of science, education, art and innovation. The students learned the basics of starting a business and were given first-hand exposure to the entrepreneurial mindset that is

Corporate Social Responsibility at BCV

We published our 2014–2015 Social Responsibility Report in 2016. This fifth edition looks at the impacts of the Bank's activities across Vaud Canton through interviews with people working in all segments of the economy: from a small farming business that grows fruits and vegetables to a rice trading business, a sawmill, and professionals from the housing, innovation and training industries. The report gives concrete examples of how BCV fulfills its mission as a cantonal bank serving the local economy.

so pervasive in Silicon Valley.

These activities are part of an initiative launched several years ago. In 2011, we published a guide to setting up a business, in collaboration with the CVCI. We also conducted a series of seminars for new business owners of all ages, in collaboration with the CVCI, SAWI (a marketing and communications organization) and GENILEM (a startup support organization). The success of these endeavors has shown that we are meeting a real need.

In order to achieve our objective of contributing to the economic development of Vaud Canton, we must ensure that our foundations are solid and that our vision for BCV leads to steady profitability going forward. In keeping with this mission, our strategy targets sustainable growth and a low risk profile.

This approach benefits all our stakeholders. In 2016, for example, we paid out CHF 255m to our majority shareholder, the Vaud Cantonal Government. This amount comprised a dividend, a distribution out of paid-in reserves, and cantonal and municipal taxes.

The principles of sustainable development and corporate social responsibility (CSR) are intrinsically linked to our solid presence in all sectors of the Canton's economy. However, these principles are about more than just business and the economy. At BCV, they have an impact across our entire organization. Beyond the ways in which we serve individuals and businesses in Vaud, a commitment to CSR underpins actions like those we take to enable employees to reach their full potential. A further example of this multidimensional approach is our involvement with the local community.

Protecting the environment is another key pillar of sustainable development, and in 2016 we continued our efforts to reduce our environmental footprint. We commission an environmental assessment every year in order to quantify our impact and suggest targeted mitigation measures. While we regularly take steps to reduce our consumption of paper and other supplies and to make our IT system more energy-efficient, most of the potential savings are to be found in our infrastructure, an area we have been investing in for several years. We cut our energy consumption 15% in just five years by installing new electrical equipment. For example, in 2016, we totally

renovated the building that houses our Vevey branch, resulting in a 60% reduction in energy use and qualifying the building for the "Minergie" energy-efficiency certification.

4. Creating lasting value for shareholders

At BCV, we are committed to creating lasting value for our shareholders. In keeping with this mission, our strategy targets sustainable growth and a low risk profile. We have therefore adopted a dividend policy aimed at generating attractive returns for all our shareholders over the long term.

We paid out a total of around CHF 2.6bn to our shareholders for the 2008 to 2016 financial years. We distributed nine ordinary dividends, the first three of CHF 14, CHF 20, and CHF 21, the next five of CHF 22 per share, and the last of CHF 23 per share, amounting to a total of CHF 1.6bn. We also made nine special distributions, which were tax free for shareholders. The first distribution was CHF 32.50 per share and the following eight were each CHF 10 per share, representing a total of CHF 1bn. The first three payments were in the form of par-value reimbursements, while the following six were distributions out of paid-in reserves.

Our financial strength, solid market position and status as a cantonal bank have won recognition from the rating agencies. Standard and Poor's maintained our AA rating for the fifth year running and Moody's reaffirmed our long-term rating of Aa2 for the second year in a row. Both agencies' ratings are accompanied by a stable outlook. Our ratings attest to the Bank's ongoing efforts in recent years, in terms of both strategy and operations. All of the rating agencies' credit opinions can be found in the Investor Relations section of our website, www.bcv.ch, or via the free BCV Investor Relations iPad app.

5. Being a benchmark employer

BCV is one of Vaud's leading employers and the largest employer in the Canton's banking sector. We consider our dynamic human resources policy to be crucial to both our mission and our strategy. Alongside missions and objectives, skills development is a key employee performance factor. We encourage training as a driver of staff motivation and knowledge management. Moreover, we are dedicated to creating workplace equality and offering the same opportunities to all staff. The issue of women in the workforce is also a focus.

A common corporate culture is an integral part of our human resources policy, which was revised as part of our *BCVPlus* strategy. At the heart of this culture are BCV's four core values: responsibility, performance, professionalism, and close ties with our customers and the broader community. These values are also central to the ethical principles and code of conduct in force within the Group. This code, which is available on our website, was reviewed and expanded in 2013.

Staff

At the end of 2016, BCV Group had 1,943 employees on a full-time-equivalent (FTE) basis, virtually unchanged from the prior year. The parent company accounts for the largest share of the workforce, with a total of 1,932 employees, or 1,739 FTEs. In 2016 we filled 255 positions: there were 139 outside hires, 74 internal transfers, and 42 people we kept on after they had completed BCV internships or training programs. Average staff turnover was 8.4% in 2016.

In terms of gender equality, the parent company had 808 female employees (41% of the workforce) at the end of 2016. Women accounted for 25% of employees with signing authority (244 positions) and 8% of all senior managers (20 positions). In addition, we have 13 women serving as branch managers, where they play a key role in running our retail network. There were 397 women (49% of the Bank's female staff) working part time at the end of the year.

Each year BCV commissions a third-party polling service to conduct an anonymous survey of all staff members in order to obtain their opinions on working conditions, workplace relations, satisfaction with supervisors and, more generally, to determine employee buy-in and commitment. Nearly 86% of employees took part in the 2016 survey. The findings showed that employee buy-in remains high. Once again this year, the results were considered very good in comparison with those at other companies in almost all areas studied, but especially in terms of support for the Bank's strategy and confidence in senior management.

Focus on training

In 2016 BCV provided job training for 90 entry-level employees, including 37 trainees, 32 students in their final year of school, 13 university interns and eight women taking part in the "Rejoignez-nous" training program.

BCV is one of the Canton's main providers of professional training. We have our own training center with around 250 instructors, more than three-quarters of whom work elsewhere within the Bank.

In 2016, the training center focused on skills development for employees throughout the Bank. Client advisors in particular require regular training to be able to keep pace with constant changes in client needs and the regulatory environment. To that end, we adopted a certification system used by several other banks that is in line with the ISO 17024 standard and recognized by the Swiss Association for Quality (SAQ). Our first round of client advisors were certified after taking the exams in 2016.

The participants in BCV's 2015–2016 Micro MBA program, offered in collaboration with the Entrepreneurship and Business Development program at the University of Geneva's Business School, obtained their diplomas. The 22 participants developed interdisciplinary and project management skills. In addition, 14 BCV employees received post-secondary degrees from outside institutions in 2016, with BCV's support. Through these actions, we are laying the groundwork to fill future leadership roles within the Bank.

Employee benefits

BCV Group provides its employees with comprehensive pension cover well in excess of the minimum legal requirements. The staff pension fund is run as a defined-contribution plan for purposes of retirement benefits, and as a defined-benefit plan for purposes of death and disability benefits.

At the end of 2016, pension fund members comprised 2,079 employees, 1,869 of whom were working at the parent company, and another 1,267 pension recipients, including 996 retirees.

BCV takes several kinds of action in the interest of employees' health. Our focus is on prevention, for instance by prohibiting smoking in our buildings, providing flu shots and financing a sports association.

6. Playing an active role in the community

Our local community is important to us, and we take our

responsibilities as a corporate citizen in Vaud Canton seriously. In addition to the purely economic aspects of our mission, we provide support for cultural and sporting activities as well as outreach initiatives.

For over 10 years we have had links with programs that allow staff members to take part in humanitarian and environmental initiatives in association with non-governmental organizations. In 2016 we supported the following programs: Don du Sang, a blood-donation program; the sale of oranges by the NGO Terre des Hommes; and the Red Cross flower-selling initiative Mimosa du Bonheur. In 2014 we introduced the BCV Generosity program, which lets employees take a day off work each year to volunteer for a non-profit organization of their choosing.

The Bank's sponsorship policy gives preference to activities of public interest in Vaud, focusing on culture, teaching and training, sports, and events of a social nature. Cultural activities are a fundamental part of life in Vaud and a key component of our sponsorship policy.

Last year we supported the following cultural events and organizations: the Paléo Music Festival, Rock Oz'Arènes, the Théâtre du Jorat, the Théâtre de Beausobre, the Cully Jazz Festival, the Festival de la Cité, the Lausanne Chamber Orchestra, the Tous en Choeur not-for-profit choir, the Maison d'ailleurs science-fiction museum, the Fondation de l'Hermitage museum of fine arts, the Fondation Bex & Arts open-air exhibition, the Fondation Vaudoise pour la Culture, the Venoge Music Festival, the Fondation du Conservatoire de Lausanne music school, the MUDAC modern art museum, the Fondation de soutien à la plate-forme Pôle muséal (Plateforme10 project to convert a railway site into a new arts district), Lausanne-Pully Museum Night, the Théâtre Benno Besson in Yverdon, and the Red Pigs Festival in Payerne.

We also support a number of outreach initiatives, which help bring together the local community. In 2016 these included: Société Vaudoise d'Utilité Publique (an association of social-service institutions), La Paternelle (a not-for-profit mutual insurance company for orphans), the Vaud Red Cross, Ma Vie Ton Sang, the Association Vaudoise des Samaritains (a first-aid training organization), the Fair Play sports organization for the handicapped, and the Fondation Compétences Bénévoles (an organization that provides support services to charities).

The future of Vaud is taking shape in its schools. Last year

we presented prizes at schools across the Canton (including primary schools, secondary schools and universities) and provided support for Lausanne's Centre Sports-Etudes for school-age athletes and for the Centre Sport et Santé (a sporting facility shared by EPFL and UNIL).

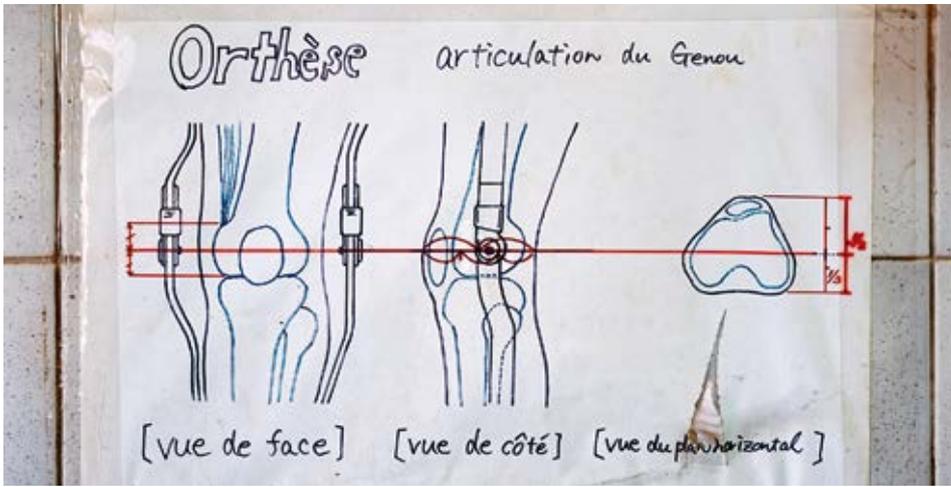
Sports activities are also a key part of the social fabric of Vaud and are central to our sponsorship policy. Last year we sponsored the following sports clubs and events: Lausanne 20K, FC Lausanne-Sport, the Fondation Foot Avenir, the Association cantonale vaudoise de football, the Lausanne Hockey Club, the International Hot Air Balloon Festival in Château-d'Oex, the Fondation d'aide aux sportifs vaudois, the Montreux-Les Rochers-de-Naye mountain race, the Mérite Sportif Vaudois, the Nyon Triathlon, the Dimanche Sportif, the Panathlon Family Games, and the Leysin Tobogganing Park.

We also support various other important initiatives in the Canton, including the Forum de l'économie vaudoise, the Forum des 100, the BDFIL cartoon festival, and the Vevey Festival of Images.

Another initiative close to our heart is BCV Solidarity. Starting in 2012, we decided to replace the end-of-year gift to employees with an annual donation in our employees' name to a humanitarian project somewhere in the world. Every year, a different project is chosen by a working group selected from a pool of volunteers. In 2016, BCV Solidarity supported a project run by Morija, a not-for-profit organization in French-speaking Switzerland. Thanks to BCV's donation of CHF 150,000, Morija will be able to expand its Center for Handicapped People in Kaya, Burkina Faso with two new buildings. Every year, the Center treats hundreds of people who are physically disabled, half of whom are under the age of 20. The buildings are scheduled to be completed by the end of 2018.

In addition, BCV supports its employees' involvement in the community, thereby contributing to their personal development. In 2016, some 200 staff members were actively involved in a variety of societies, associations and other organizations of a social, political, cultural or sporting nature. However, BCV has a policy to not provide any type of formal support to any political party or organization.

More detailed information about the Bank's contributions to our community can be found in BCV's Social Responsibility Report (available in French only) on our website, www.bcv.ch.





Year in Review

Economic Environment

Global growth continued at a moderate pace of 3.1% in 2016, close to the 2015 figure of 3.2%. Growth in emerging economies remained stable overall. Among developed economies, meanwhile, the eurozone continued its recovery whereas the USA saw growth slow temporarily after oil prices fell at the start of the year. The UK's vote to leave the European Union had little impact in 2016.

In Switzerland, growth accelerated in both the country as a whole (from 0.8% in 2015 to 1.3% in 2016) and in Vaud Canton specifically (from 1.2% to 1.6%) despite the subdued global economy and the Swiss franc's strength against the euro. Indeed, a year after growth dipped because of the decision by the Swiss National Bank (SNB) to scrap its minimum EUR/CHF exchange rate in 2015, the situation improved in most sectors.

Global economy: still disappointing

2016 was a year of surprises: oil prices fell sharply in January, the UK voted to leave the European Union in June, and Donald Trump was elected US president in November.

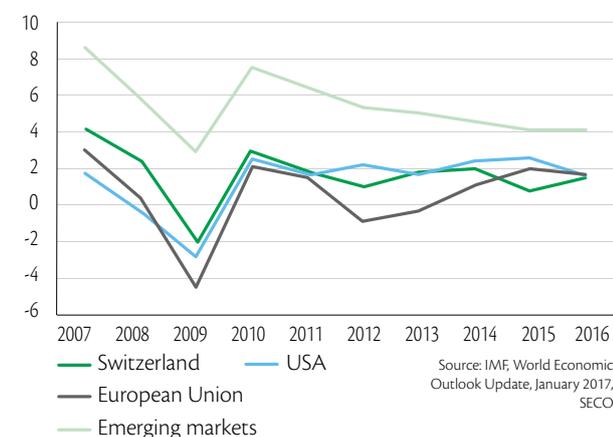
Nevertheless, the global economy stabilized last year. It grew by 3.1% according to the International Monetary Fund's (IMF) World Economic Outlook Update in January 2017, only slightly less than the 3.2% achieved in 2015. However, as in previous years, growth forecasts fell steadily relative to the IMF's initial prediction, dating from April 2015, that the world economy would grow by 3.8% in 2016.

The biggest surprise was the downturn in the USA in the first half of the year, as lower oil prices caused problems in the oil and gas sector. The world's largest economy saw growth fall from 2.1% in 2015 to 1.6% in 2016. However, the situation improved in the second half and the US Federal Reserve decided that the economy was strong enough for it to raise interest rates, for the second time since 2008. Other developed economies were more stable. The eurozone continued to recover, although growth fell slightly from 2.0% in 2015 to 1.7% in 2016.

Emerging economies posted growth of 4.1% in 2016, the same as in 2015, and that partly made up for weaker growth

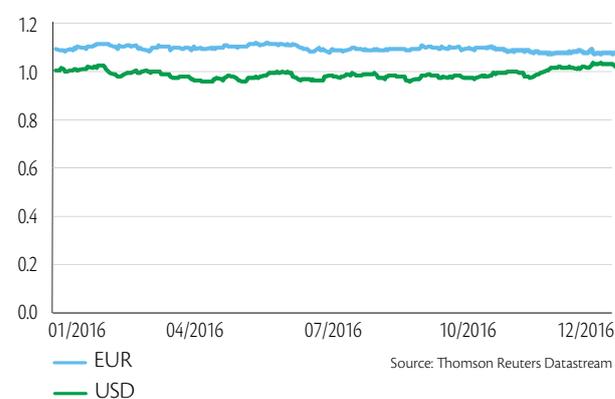
GDP growth around the world

as %



Exchange rates

versus CHF



in developed countries. Russia and to some extent Brazil saw their situations improve, although both remained in recession. China's attempts to engineer a soft landing appeared to be successful, with gross domestic product (GDP) growth of 6.7% in 2016 after 6.9% in 2015.

Turbulent financial markets

Stock markets had another eventful year in 2016. The main indices fell sharply in February because of concerns about growth in China, and again in June after the UK's Brexit vote. However, US and emerging-market equities recovered from spring onwards. After the US presidential election in November, the US rally gained pace while emerging markets moved sideways. In the eurozone, however, share prices did not start rising until the end of the year, while Swiss equities failed to recoup their early-2016 losses. The Swiss Market Index, made up of the largest companies listed on the SIX Swiss Exchange, fell 6.8% last year, while the Euro Stoxx 50 eurozone blue-chip index gained 0.7%. The MSCI emerging-market index rose 5.9%. In the USA, the S&P 500 was up 9.5%.

For bonds, it was a year of two halves. First, yields on government paper continued to fall until the summer. The ten-year Swiss government bond yield fell from -0.08% at the start of January to -0.60% in July. It then rose briefly above zero, peaking at 0.01% in early December before falling back to -0.14% at year-end. The story was similar in

Germany, with the 10-year Bund yield starting the year at 0.63%, turning negative between the summer and early fall and bottoming out at -0.22%, before rising again to 0.10% at end-2016. US Treasury yields started to rise substantially in the fall and ended the year at 2.45%, having started it at 2.27%.

However, there was little movement in short-term interest rates. The SNB maintained its interest rate of -0.75% on banks' sight deposits in excess of a given exemption threshold. The European Central Bank pushed its official interest rates a little further into negative territory in March, while the US Federal Reserve, after an initial rate hike in late 2015, raised key interest rates again in December 2016.

Inflation remained low around the world. In Switzerland, inflation was again negative at -0.4% because of lower energy prices. Prices rose 1.1% in the eurozone and 2.1% in the USA.

The price of gold moved inversely with yields, rising in the first half and falling in the second. Gold ended the year up 8.1% at USD 1,145.90 per ounce or CHF 37,456 per kilo (+10.0%).

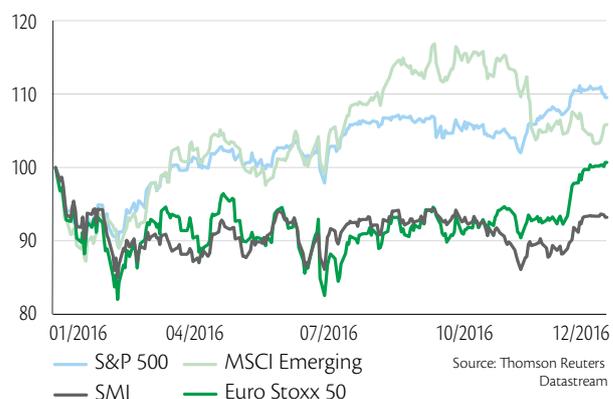
In the forex market, neither the euro nor the dollar saw much movement against the Swiss franc in 2016. The euro remained within a range of CHF 1.07–1.12, ending the year down 1.3% at CHF 1.07. The dollar was worth between

Interest rates



Stock market indices in local currency terms

base of 100 at 31 December 2015



CHF 0.95 and CHF 1.03 in 2016, appreciating by 1.6% over the year to CHF 1.02.

Stronger Swiss growth

The Swiss economy recovered in 2016. Growth had slowed sharply from 2.0% in 2014 to 0.8% in 2015 because of the Swiss franc’s sharp rise against the euro following the SNB’s move to scrap the exchange-rate floor. According to figures published by the State Secretariat for Economic Affairs (SECO) in March 2017, Swiss GDP rose 1.3% in 2016, particularly as a result of increased spending on capital goods. However, growth was again held back by downward pressure on margins – experienced by both exporters and companies facing foreign competition in the domestic market – and by ongoing weakness in consumer spending, although there was some improvement in that area.

The Swiss economy was supported by a robust domestic market and some resilience among export industries.

Despite sluggish export markets and the Swiss franc’s strength against the euro, Swiss exports rose 3.8% in nominal terms to CHF 210.7bn.

The job market also held up well. Unemployment was almost unchanged, moving from an average of 3.2% in 2015 to 3.3% in 2016. Secondary- and tertiary-sector jobs were up 0.1% year on year, totaling 3.8m in the fourth quarter of 2016. Employment rose 0.6% in the tertiary sector to 2.9m yet fell by 1.3% in the secondary sector to 1.0m.

Robust Vaud economy

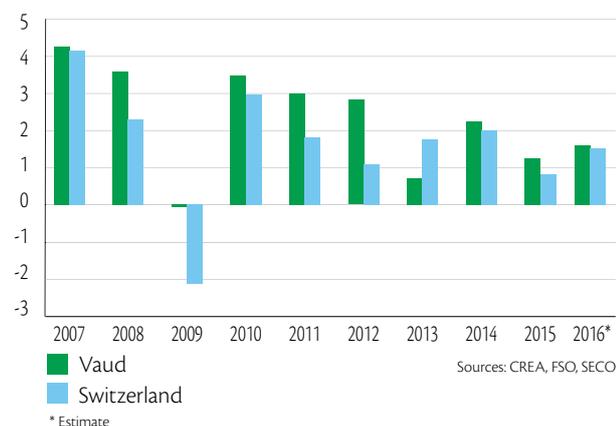
Economic growth in Vaud Canton strengthened again in 2016 after being hit by the SNB’s exchange-rate decision in 2015. The Canton’s growth accelerated from 1.2% in 2015 to 1.6% in 2016, according to January 2017 figures from the CREA Institute. Growth improved in most sectors of the economy. Exporters also continued to hold up relatively well against the pressure on their margins caused by the weak euro, partly because of their market positions but also because of the rise in the dollar. Machinery exports rose slightly, although the precision instruments, watchmaking, chemicals, pharmaceuticals, and agri-food sectors saw lower sales, causing Vaud’s exports to fall 2.0% in nominal terms to CHF 13.2bn.

The Vaud Chamber of Commerce and Industry (CVCI) autumn survey confirmed the strength of the Canton’s economy. Some 32% of companies surveyed said they found business trends either good or excellent; a further 49% found them satisfactory. A mere 19% thought business trends were poor or mediocre. Companies facing stronger headwinds tended to be manufacturers and mainly export-oriented firms.

Vaud’s job market remained strong, like that of Switzerland as a whole. The number of jobs in the Canton was up 1.2% year on year in the fourth quarter of 2016, driven by a 1.9% increase in the tertiary sector. In the secondary sector, however, jobs fell 1.7%. The local unemployment rate was unchanged at 4.7% in 2016. However, that figure masks significant regional differences. Unemployment was below the Vaud Canton average in Gros-de-Vaud (3.1%), Lavaux-Oron (3.3%), Morges (3.7%), Nyon (3.8%), and Jura-Northern Vaud (4.4%), while figures were higher in Broye-Vully (4.9%), Riviera-Pays-d’Enhaut (5.0%), Aigle (5.2%), West Lausanne (5.6%), and Lausanne (6.3%).

Vaud and Swiss GDP growth

as %



Soft landing in the real-estate market

The Vaud real-estate market continued the soft landing that began in 2013. According to figures from Wüest & Partner, selling prices fell 2.5% for apartments and 4.1% for houses in 2016. Price movements in Vaud lagged behind the national average for the fourth year in a row.

Accordingly, construction activity remained slightly weaker than the record levels seen in previous years. The number of people employed in construction fell 1.8% to 26,686 in the fourth quarter of 2016. However, after recovering from two years of decline in 2015, the volume of work represented by building permit applications continued to rise. It reached CHF 6.1bn (+18.2%) in 2016 thanks to an 11.5% increase

(to CHF 3.9bn) in residential projects. However, the value of permit applications for industrial and commercial property fell 16.6% to CHF 0.9bn.

Although the factors that have traditionally supported Vaud's real-estate market – favorable demographics, a healthy economy, and low interest rates – are still present, they are being challenged by high property prices and measures introduced by banks between 2012 and 2014 to tighten rules on mortgage lending (most notably by requiring a cash downpayment of at least 10% and slightly faster repayment schedules).

In a further effort to cool Switzerland's real-estate market, the Swiss Federal Council decided in 2013 to partially

2016 growth by economic segment in Vaud

Growth above 2%

Chemicals, pharmaceuticals, rubber, glass, metallurgy, etc.
Water and electricity production and distribution
Food, textiles, leather, wood, paper

Growth of 0.5% to 2%

Wholesale and retail distribution, repairs, etc.
Government administration, healthcare, education, sports, etc.
Real estate, business services, etc.
Construction
Finance and insurance
Transport, postal services, telecommunications, publishing

Growth of –0.5% to 0.5%

Hotels and restaurants
Machinery, instruments, watches, etc.

Contraction of over 2%

Primary sector

Source: CREA, FSO, SECO

Vaud Canton and Switzerland in figures

| | Vaud | Switzerland |
|----------------------------------|---------------------------------|---------------------------------|
| Area | 3,212 km ² | 41,285 km ² |
| Population (end-2016 est.) | 778,251 inhabitants | 8,350,000 inhabitants |
| Population density | 242 inhabitants/km ² | 202 inhabitants/km ² |
| Working population (2015) | 409,133 | 4,587,127 |
| Number of companies ¹ | 58,347 | 670,558 |
| Primary sector | 6.8% | 8.4% |
| Secondary sector | 13.7% | 14.4% |
| Tertiary sector | 79.6% | 77.2% |
| Jobs | 431,281 | 5,044,371 |
| Primary sector | 3.1% | 3.3% |
| Secondary sector | 17.1% | 21.8% |
| Tertiary sector | 79.8% | 74.6% |
| Unemployment rate (2016 average) | 4.7% | 3.3% |
| GDP (2015 est.) | CHF 51.9bn | CHF 645.6bn |
| GDP/inhabitant | CHF 66,700 | CHF 77,312 |

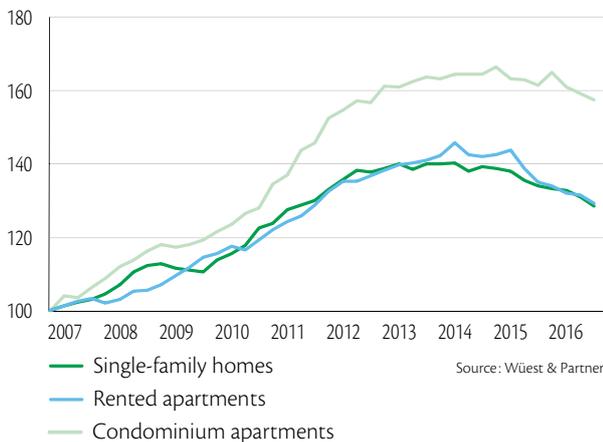
¹A company or part of a company (e.g., a workshop or factory) located in a given place

Sources: Structural Business Statistics 2014, FSO, SECO, CREA

activate a countercyclical capital buffer at the request of the SNB. Under this measure, which was implemented in two phases in 2013 and 2014, Swiss banks are required to hold additional equity capital equal to 2% of their risk-weighted mortgages secured by Swiss residential property.

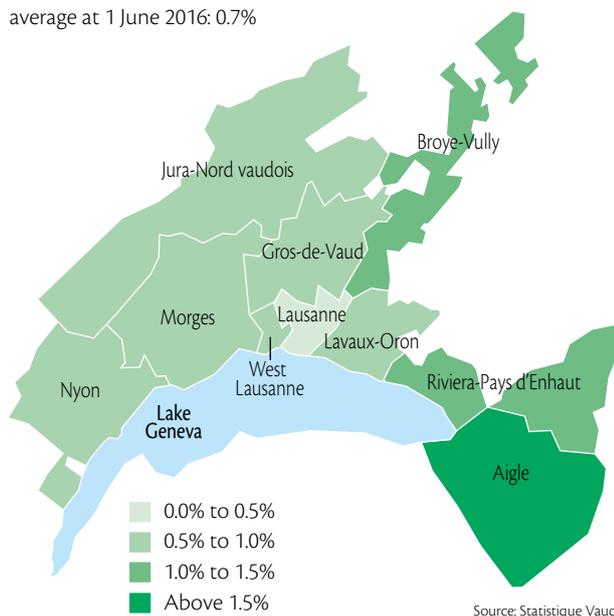
Real-estate prices in Vaud

indices, base of 100 in Q1 2007



Housing vacancy rates in Vaud

average at 1 June 2016: 0.7%



Outlook

Economic projections for 2017 are fairly subdued, as in previous years. In January 2017, the IMF forecast a slight acceleration in global growth to 3.4%, with conditions very similar to 2016. Growth is likely to increase slightly in the USA and emerging-market countries, due in particular to an improved situation among commodity-producing countries. The eurozone and the rest of Europe should continue to expand, but at a slightly slower pace as the UK starts the process of leaving the EU. However, there is still a large number of risks. For example, the outcome of the Brexit process and the exact details of the new US administration's economic policy are hard to predict.

Further population growth

The number of people who reside permanently in Vaud Canton rose in 2016 by around 10,754 (+1.4%) to 778,251, according to estimates from Statistique Vaud. This marks a slight deceleration compared with previous years: since 2007, the average increase had been nearly 12,200 per year, with peaks in 2008 (16,300) and 2011 (13,400) as a result of high net immigration. The number of inhabitants has risen significantly more quickly in Vaud (+1.7% per year on average) than in Switzerland as a whole (+1.1%) since 2007, although the population growth gap between Vaud and Switzerland has narrowed since 2014. Implementation of the "against mass immigration" initiative, which was approved by a majority of Swiss voters in a nationwide referendum, makes it hard to estimate future demographic trends.

In Switzerland and Vaud Canton, economic growth should continue to accelerate slightly. SECO expects the Swiss franc to weaken a bit and Swiss growth to rise to 1.8% in 2017, just above the 2016 figure. In Vaud, CREA expects GDP to expand 1.7%. As is the case worldwide, however, many risks remain. Unexpectedly weak global growth or a rise in the Swiss franc could cause the economic situation to deteriorate in Vaud and Switzerland as a whole. Moreover, after a corporate tax reform planned by the Swiss government was rejected in a referendum, international companies still have little visibility on how the Swiss tax system will change.

Interest rates are unlikely to rise substantially in Europe – including Switzerland – over the next twelve months.

Economic sectors in the Canton

Vaud Canton has a highly diversified economy, which enabled it to endure the difficult years of the global economic crisis and maintain healthy growth rates into 2014, cope fairly well with the impact of the SNB's decision to scrap the exchange-rate floor in 2015, and stage a recovery in 2016. Most of the Canton's main economic sectors held up relatively well in 2016, although to varying extents.

Primary sector

2016 was a better year for Vaud farmers, making up for the decline in 2015. Data from the Federal Statistics Office (FSO) show that the value of farming output rose 0.2% to CHF 1.1bn in 2016, while total farm income was up 5.0% to CHF 329m. In particular, wine harvests rose back to normal levels after three low-yielding years. The year did not start well, with a wet spring promoting fungal diseases, but crop treatments and a dry, hot end to the summer meant that yields rose back to their 2012 levels. The volume of grapes harvested in 2015 corresponded to 30.3m liters of new wine, 34.3% above the 2013–2015 average. This return to normal was welcome because inventories had fallen sharply, potentially limiting the supply of Vaud wines – and white wines in particular – in the market.

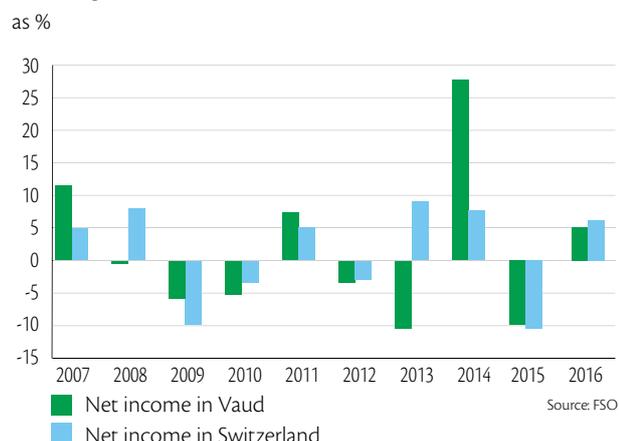
However, 2016 was less good for major crops, which suffered from the damp spring. According to the FSO, national harvests were the lowest since the 1970s. Income from vegetable crops and horticulture also fell, but to a lesser extent. That decline was partly offset by an increase in revenue from fruit crops. Income from livestock production also recovered. Although milk prices remained under pressure, pork and beef markets improved.

Vaud is a major contributor to Swiss farming output (11% by value), second only to Bern. The Canton accounts for the largest share (17%) of the country's crop production. It is Switzerland's leading producer by value of grain, industrial crops, potatoes and fresh vegetables, but is less active in the production of livestock and feed crops.

Secondary sector

2016 was a mixed year for the secondary sector. While exporters struggled with slightly subdued foreign demand

Farming income



and the Swiss franc's strength against the euro, domestically-oriented firms were generally buoyed by Vaud's strong economy. According to the CVCI fall 2016 survey, more than two thirds of companies found business trends at least satisfactory.

Manufacturing

2016 was a slightly better year for Vaud's manufacturers: downward pressure on prices eased and overall profitability improved because of companies' streamlining efforts and the rise in the dollar. The business indicator published by the Commission Conjoncture Vaudoise (CCV) turned upward after falling in 2014 and 2015, when it was weighed down by the weak global economy and the SNB's decision to drop the EUR/CHF currency floor in early 2015. However, the indicator remained below zero, suggesting that manufacturers are still facing difficulties. The operating environment was tougher in metallurgy than in the food, chemicals or plastics industries, whereas the machinery and transport-equipment sectors enjoyed a significant upturn in business.

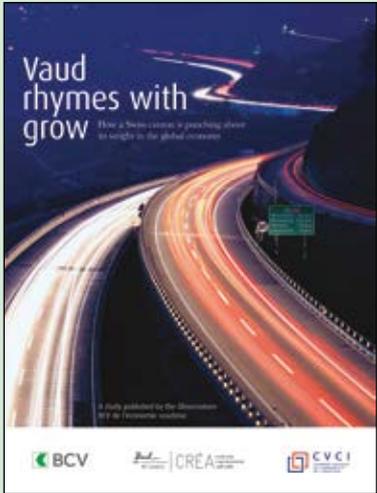
The decline in Vaud exports was limited to 2.0% in 2016, with some industries doing better than others. Exports decreased in value terms in the watchmaking, precision instruments, chemicals, pharma and agri-food industries, although this was partly offset by an increase in machinery.

Construction

The soft landing in the real-estate market was accompanied by lower business levels in construction, and particularly in the residential segment. The CCV's construction business-volume indicator remained close to zero, showing that companies regard the market as stable. The situation improved in structural works and civil engineering, but trends were weaker in non-structural and technical fit-out work. Overall, prices remained under substantial pressure and companies reported mixed views on their order books. The number of people working in construction also fell by 1.8% to 26,686.

Tertiary sector

Wholesale and retail distributors, hotels and restaurants all continued to suffer from the SNB's exchange-rate decision. However, other service companies enjoyed firm domestic



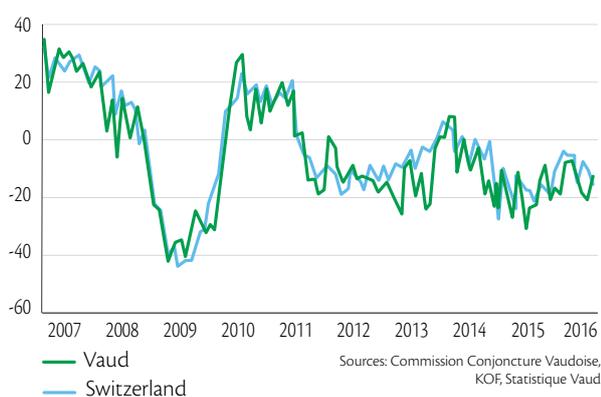
“Vaud rhymes with grow.” This study, published by the Observatoire BCV de l’Economie Vaudoise (an economic think-tank housed at BCV), takes a detailed look at Vaud’s economy. It shows that Vaud “punches above its weight” economically compared to other regions in Switzerland and Europe, and retraces the recent economic history of the Canton. It also describes Vaud’s resilience since the global financial and economic crisis, arguing that the Canton is well equipped to deal with the challenges that are likely to define the next few years.

The study is the result of a collaboration between the Vaud Chamber of Commerce and Industry (CVCI), the CREA institute of applied economics (a branch of the HEC business school at the University of Lausanne), and BCV. It is available in French and English and can be downloaded from the BCV website at www.bcv.ch.

Structure of the Vaud economy

| Sectors and segments | Share of Vaud GDP (2016) | Full-year growth (2007-2016) | Jobs (2014) | Share of total jobs (2014) |
|--|--------------------------|------------------------------|----------------|----------------------------|
| Primary sector | 1.0% | -1.1% | 13,421 | 3.1% |
| Agriculture, forestry, hunting, fishing | 1.0% | -1.1% | 13,421 | 3.1% |
| Secondary sector | 20.6% | 1.8% | 73,876 | 17.1% |
| Food, textiles, leather, wood, paper | 2.7% | 1.0% | 11,914 | 2.8% |
| Chemicals, pharmaceuticals, rubber, glass, metallurgy, etc. | 6.9% | 4.9% | 11,601 | 2.7% |
| Machinery, instruments, watches, etc. | 5.1% | -0.2% | 18,397 | 4.3% |
| Water and electricity production and distribution | 1.5% | -2.4% | 3,855 | 0.9% |
| Construction | 4.5% | 2.4% | 28,109 | 6.5% |
| Tertiary sector | 78.4% | 2.2% | 343,984 | 79.8% |
| Wholesale and retail distribution, repairs, etc. | 16.0% | 3.1% | 55,363 | 12.8% |
| Hotels and restaurants | 1.6% | -0.4% | 20,717 | 4.8% |
| Transport, postal services, telecommunications, publishing | 5.3% | 1.1% | 23,667 | 5.5% |
| Finance and insurance | 7.9% | 1.2% | 17,920 | 4.2% |
| Real estate, business services, etc. | 15.9% | 2.8% | 81,609 | 18.9% |
| Government administration, healthcare, education, sports, etc. | 24.3% | 2.5% | 137,949 | 32.0% |
| Other (including rental values) | 7.4% | 1.1% | 6,759 | 1.6% |
| Total Vaud GDP (after adjustments) | 100.0% | 2.0% | 431,281 | 100.0% |

Sources: CREA, FSO

Composite index of business sentiment in manufacturing
net positive responses

Change in exports by year



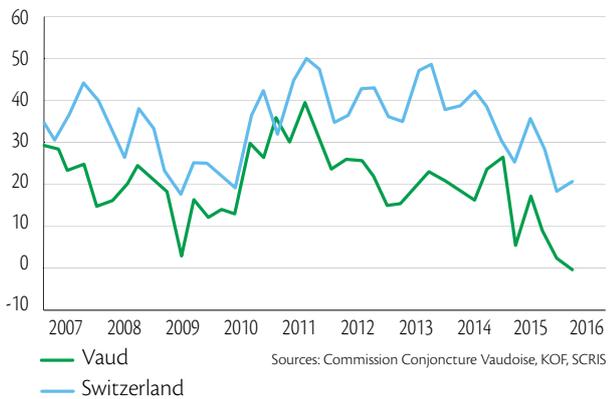
Wholesale and retail distribution

2016 was another difficult year for this sector. Although consumer spending improved, it remained relatively weak, and the situation was not helped by poor spring weather conditions, pressure on prices, competition from online retailers, and Swiss people continuing to shop abroad as the franc remained overvalued against the euro. In Switzerland,

retail sales fell by 1.1% in real terms, similar to the 1.2% decline seen in 2015. Although food sales were relatively stable, spending on clothing and footwear and on cultural and leisure activities was lower. Small stores suffered more than large retailers. In Vaud, the CCV survey showed weaker business levels and margins until the summer followed by an improvement in the second half of the year. The survey's indicator regarding selling prices also rose during 2016.

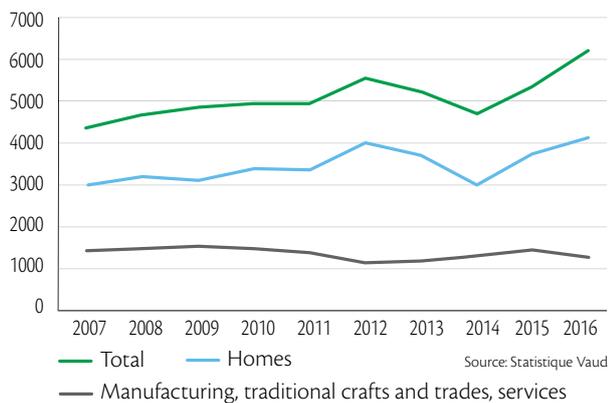
Business sentiment in construction

net positive responses



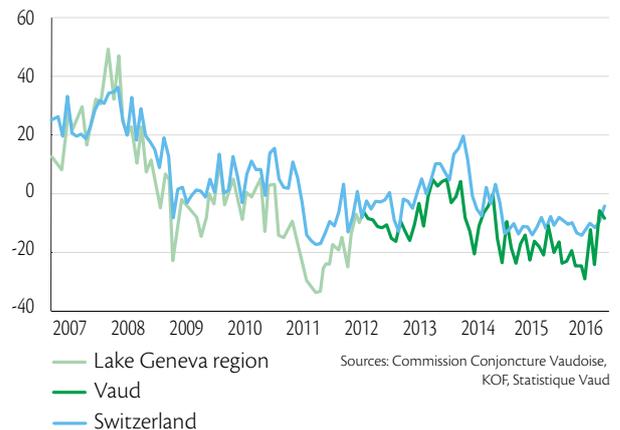
Value of work from building permit applications in Vaud

in CHF millions



Business sentiment in the retail sector

net positive responses



Hospitality services

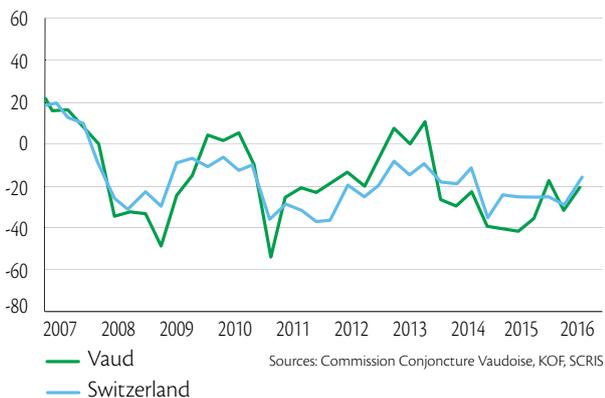
Hotels and restaurants continued to see relatively tough market conditions in 2016, although there were some bright spots. The number of overnight hotel stays, after a slight initial upturn in 2015 (+0.7%), recovered strongly in 2016 (+4.5%), driven by both Swiss and foreign guests. The country attracted more visitors from the USA, the Netherlands, and the UK, but fewer from China, France and Belgium. Prices remained under significant pressure, and mountain hotels suffered more than those in cities and on the plateau. Restaurants were affected by sluggish consumer spending as customer traffic, revenues and earnings remained low.

Services

Business and personal services, which cover a variety of activities and form a large part of the Vaud economy, were supported by firm domestic demand. The business volume indicator remained in positive territory in 2016, although it was lower than in previous years, showing weaker growth momentum.

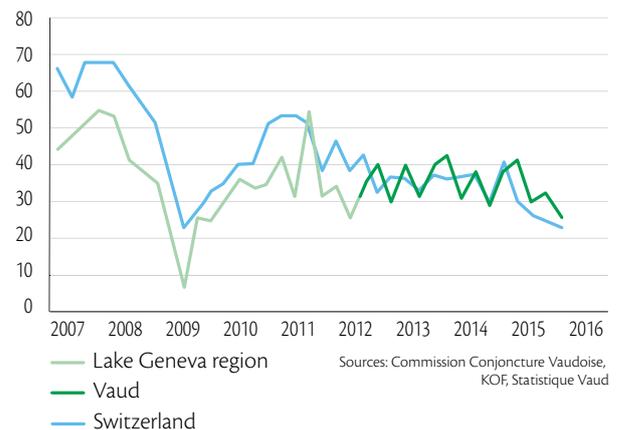
Sales index in the hotel and restaurant industry

net positive responses



Sales index in the services sector

net positive responses



Regional roundup

The broad trends discussed in the previous pages were reflected in the various regions of Vaud Canton. However, each region has specific points worth mentioning.

Broye

The Federal Wrestling and Alpine Games Festival, which took place at Payerne airfield in August 2016, was a success and boosted the local economy, particularly its hotels. In the real-estate market, the slowdown seen elsewhere in the Canton also affected Broye, with house prices and rents both easing. Construction activity weakened as well because of a decline in order backlogs, while farming suffered from poor harvests.

Chablais/Vaud Alps

Mountain resorts had a difficult year because of the Swiss franc's continuing strength against the euro, a lack of snow around Christmas and New Year, and ongoing low levels of overnight stays in the summer season. The real-estate market was quiet in the Vaud Alps. Away from the mountains, the proportion of residential properties lying vacant increased, while construction activity slackened and house prices eased. Manufacturers' margins remained under pressure, although slightly less so than in 2015.

Gros-de-Vaud

Demographic trends continued to support business levels. Construction activity remained robust and order books stayed full because of a number of small projects that started before the implementation of Switzerland's amended regional planning act (LAT). While real-estate prices fell slightly in the region, land prices remained relatively stable. Manufacturers were resilient, even though foreign competition remained very tough.

Lausanne

The Lausanne region's economy was once again helped by its diversity in 2016. Although the cool-down in real-estate prices continued, the economy was supported by large numbers of construction and renovation projects in the infrastructure, office, and residential segments. Tourism and hotels fared well, although prices remained under pressure.

Business startups also enjoyed positive momentum, and young companies incubated by the Swiss Federal Institute of Technology in Lausanne (EPFL) attracted record investment in 2016.

Lavaux

The downturn in the real-estate market in the southern part of the region – and in Pully and Lutry in particular – was replicated in towns farther away from Lake Geneva such as Oron and Mézières, which had long seen stronger demand for housing because prices there are lower than near Lake Geneva. The market now appears to be nearing saturation. And with the implementation of Switzerland's amended regional planning act (LAT) starting to have an impact, several newbuild housing projects were postponed or halted.

Morges

Construction companies had a good year, with a slowing but still solid real-estate market and despite reduced visibility caused by smaller order books. For manufacturing subcontractors and exporters, the Swiss franc's strength against the euro remained a problem, although companies were able to take action to limit the adverse impact. Economic development areas such as Littoral Park in Etoy and the Aclens industrial area continued to grow, but at a slower pace.

Nord Vaudois

Watch exports continued to decline in 2016. Some brands – as well as their subcontractors – were forced to adopt short-time working and even lay off some staff. The strong Swiss franc continued to have a significant impact on manufacturers in segments like machinery, precision instruments, and plastic injection. These segments are focused on exports or work for customers that themselves sell abroad. On the plus side, the startup incubator at the Y-Parc technology park continued to flourish: it is now full and looking to expand.

Nyon

The market for high-end homes remained stagnant, but mid-range apartments continued to see fairly firm demand. Construction activity remained good, but

Economic structure by BCV region

| | Broye | Chablais | Gros-de-Vaud | Lausanne | Lavaux | Morges | Nord Vaudois | Nyon | Riviera |
|-----------------------------------|--------|----------|--------------|----------|--------|--------|--------------|--------|---------|
| Population at end-2016 | 32,144 | 49,337 | 62,557 | 228,608 | 59,836 | 75,722 | 91,205 | 96,093 | 82,749 |
| Population growth in 2016 | +1.7% | +1.0% | +2.0% | +1.6% | +0.9% | +1.2% | +1.4% | +1.4% | +1.0% |
| Proportion of Canton's population | 4.1% | 6.3% | 8.0% | 29.4% | 7.7% | 9.7% | 11.7% | 12.3% | 10.6% |
| Jobs (2014) | 14,528 | 22,016 | 23,764 | 183,452 | 21,060 | 38,251 | 46,882 | 42,770 | 38,558 |
| Proportion of Canton's jobs | 3.4% | 5.1% | 5.5% | 42.5% | 4.9% | 8.9% | 10.9% | 9.9% | 8.9% |
| Jobs in the primary sector | 10.5% | 7.6% | 6.6% | 0.1% | 6.2% | 5.9% | 5.5% | 3.8% | 1.6% |
| Jobs in the secondary sector | 27.2% | 22.0% | 32.1% | 10.8% | 15.9% | 21.2% | 32.7% | 14.9% | 11.7% |
| Jobs in the tertiary sector | 62.4% | 70.4% | 61.3% | 89.1% | 77.8% | 72.9% | 61.8% | 81.3% | 86.7% |
| Average unemployment in 2016 | 4.9% | 5.0% | 3.5% | 6.2% | 3.3% | 3.7% | 4.4% | 3.8% | 5.0% |
| Change in unemployment in 2016 | +0.1% | +0.0% | +0.2% | +0.0% | +0.1% | -0.2% | +0.0% | +0.3% | -0.0% |

Sources: Statistique Vaud, FSO, SECO

margins were under pressure because of competition from companies outside Vaud, and in some cases outside Switzerland. Competition from retailers outside Switzerland and online retailers drove an increase in tenant turnover in the city's retail district. Restaurants and hotels, which are heavily reliant on business travelers in this region, also suffered from the strong Swiss franc and competition from the other side of the French border.

Riviera

The emergence of new tourist attractions, including the Federal Music Festival in Montreux and two new museums

in Vevey – Chaplin's World and nest – increased the number of overnight stays in the region's hotels. Although prices remained under pressure, that growth gave hotels scope to continue investing. Trends were also positive for private schools and clinics. However, the real-estate market did not manage to buck the downtrend seen across the Canton.

Year in Review

BCV in 2016

We delivered solid 2016 results in a difficult environment. Although business volumes continued to expand, revenues declined 6% to CHF 967m, due to persistently negative interest rates and lackluster financial markets. Operating profit fell by just 4%, to CHF 383m, thanks to firm cost control. As expected, net profit came in below the year-earlier figure, which was pushed up by non-recurring items. 2016 net profit fell 8% to CHF 310m, which is nevertheless higher than in 2013 and 2014.

In 2016, we pressed ahead with our current strategic phase, *stratégie2018*. As part of our initiative to enhance our digital banking services, we took a stake in TWINT SA, which merges Swiss mobile payment systems Paymit and TWINT to provide a mobile payment solution specifically designed for the Swiss market. We added other services to our digital offering as well, including an investment simulator and an online mortgage loan renewal service. In addition, we made progress on some important behind-the-scenes projects aimed at improving our internal processes and the quality of our services.

A mixed economic environment

Global growth in 2016 came in at 3.1%, slightly below the 2015 figure (3.2%). This was mainly due to a short-lived slump in the US economy as oil prices fell early in the year. The Vaud economy and that of Switzerland as a whole partly recovered from the rise in the Swiss franc after the Swiss National Bank (SNB) dropped the EUR/CHF currency floor on 15 January 2015. The situation improved in most sectors, and GDP growth in 2016 was higher than the previous year for both Vaud and the country as a whole.

In the cross-border banking business, work to implement the automatic exchange of tax information continued. Switzerland has now signed agreements with a number of jurisdictions, including the European Union, and the first exchanges are due to take place in 2018. At BCV, the realignment of our offshore private banking business on tax-

compliant clients in around 15 countries is now essentially complete.

There were further signs of cooling in the Vaud real-estate market. Prices for condominium apartments and single-family homes fell in 2016. While Vaud real-estate prices rose faster than the Swiss average from 2008 to 2012, the growth rate was below the national average in 2016 for the fourth year in a row.

Continued growth in customer-driven business volumes

Mortgage lending rose 2%, or CHF 515m, to CHF 25.0bn. Other loans, however, fell 2% to CHF 4.8bn, with the decline reflecting a drop in the Bank's treasury placements. On the liabilities side, the expansion in customer deposits continued, with a rise of 1% (+CHF 368m) to CHF 29.2bn. Total assets were up 2% to CHF 44.1bn.

The Group's assets under management decreased 3% to CHF 85.4bn as a result of the transfer of assets managed by Swisscanto following its acquisition by ZKB. Net new money totaled CHF 2.3bn, with an inflow of onshore funds (+CHF 3.3bn) offsetting the expected outflow of offshore funds (-CHF 1.0bn).

Financial results

Total revenues fell 6% year-on-year to CHF 967m despite higher business volumes. In an environment marked by continued negative interest rates, which we do not pass on to the great majority of our customers, net interest income before loan impairment charges/reversals edged down 1% to CHF 483m. Net interest income dropped 3% to CHF 478m owing to new provisions for credit risk. Commission and fee income decreased 7% to CHF 308m, reflecting a contraction in client trading volumes caused by lackluster financial markets, the end of our online brokerage partnership with PostFinance, and a realignment of our offshore private banking business on a select group of countries. Net trading income, which derives

mainly from client forex trading activities, remained solid at CHF 139m. This figure is down 7% from 2015 due to a spike in business in January and February 2015 after the SNB dropped the EUR/CHF currency floor. Other ordinary income came in at CHF 42m, a 20% year-on-year decrease attributable to a one-off dividend payment by SIX Group in 2015.

Operating expenses were down again, by 1% to CHF 509m. Personnel costs were flat at CHF 338m, while other operating expenses fell 4% to CHF 171m. Depreciation and amortization decreased 4% to CHF 72m, and other provisions and losses dropped 93% to CHF 3m. At CHF 383m, operating profit was down 4% on 2015 but was up versus 2013 and 2014, attesting to the Group's earnings stability.

Extraordinary income was CHF 7m, down CHF 22m on the 2015 figure, which included proceeds from the sale of the Bank's stake in Swisscanto. Net profit came in at CHF 310m, down 8% from 2015 but higher than in 2013 and 2014.

Our cost/income ratio went from 57% to 59%. In an environment marked by negative interest rates, our net interest margin stood at 1.11%, down slightly on the 2015 figure (1.14%). Shareholders' equity rose 1% to CHF 3.4bn. The Group's Core Equity Tier 1 (CET1) ratio at 31 December 2016 was 16.8%, and the leverage ratio was 6.6%. Finally, our return on equity stood at 9.1%.

Business sector overview

Retail Banking

The negative-interest-rate environment did not directly affect our Retail Banking customers, as we still paid either zero interest or a slightly positive rate on their deposits. The mortgage book expanded by 2% to CHF 7.7bn, while customer deposits were down 5% to CHF 8.0bn following the end of BCV's partnership with PostFinance. Excluding this factor, customer deposits were up 3%. Sector revenues were flat at CHF 171m, and operating profit rose 37% to CHF 25m thanks to firm cost control. Retail Banking also carried out several projects to enhance customer service as part of the Bank's *stratégie2018* strategic phase.

Corporate Banking

Corporate Banking saw firm business growth in 2016. Vaud SMEs held up very well against the difficulties caused by the

Swiss franc's rise against the euro. The Trade Finance business picked up, with both transaction volumes and commodity prices on the rise. The Large Corporates business experienced high levels of volatility, in line with the trend seen in recent years. Lending and commitments climbed 6% to CHF 15.7bn, while deposits grew 7% to CHF 8.7bn. The Sector's revenues rose 2% to CHF 237m, and operating profit was up 3% to CHF 131m. Net new provisioning needs were low, attesting to the quality of our corporate loan book.

Wealth Management

The Wealth Management Sector experienced different business trends across its various segments in 2016. The offshore private banking business, where the regulatory environment is undergoing major change, continued its realignment, while onshore private and institutional wealth management achieved firm business growth, including in German-speaking Switzerland. The Sector's assets under management decreased 6% to CHF 64.2bn as a result of the transfer of assets managed by Swisscanto and the realignment of the Bank's offshore private banking business. The mortgage book expanded by 4% to CHF 7.4bn. The Sector's revenues and operating profit were flat at CHF 320m (-1%) and CHF 98m (-0%), respectively.

Trading

Currency trading was strong last year yet fell short of the high levels posted in 2015, in which business was boosted by the removal of the EUR/CHF floor rate. The Bank's customers carried out spot forex transactions and set up hedges throughout 2016 in response to renewed volatility and economic growth in the region. Issuance of structured products dropped sharply in 2016. Compared with 2015, trading revenues fell 9% to CHF 61m, and operating profit dropped 19% to CHF 31m. Risk levels stayed very low, as BCV's trading activities are focused primarily on customer-driven transactions.

Highlights of the year

Dividend payment and special distribution

We intend to pay an ordinary dividend of CHF 22–27 per share as well as a special distribution of CHF 10 per share out of paid-in reserves. Barring significant changes in the economic and regulatory environment or in the Bank's

situation, we plan to maintain this distribution level until 2018.

In 2016, we maintained our dividend and capital-management policy for the ninth consecutive year. We even increased our ordinary dividend by CHF 1 to CHF 23 per share. In April, we distributed CHF 198m to shareholders in the form of an ordinary dividend and made a special distribution of CHF 86m out of paid-in reserves. The Canton of Vaud received CHF 190m of the CHF 284m paid out to shareholders in 2016. For the 2007 to 2015 financial years, BCV returned a total of over CHF 2.6bn to its shareholders.

Credit ratings

Standard & Poor's maintained our long-term rating of AA, with a stable outlook, a rating we were first assigned in 2011. Moody's reaffirmed our long-term rating of Aa2, also with a stable outlook.

Changes within the Board of Directors

Peter Ochsner took up his position on BCV's Board of Directors on 1 July 2016. Mr. Ochsner, who was appointed by the Vaud Cantonal Government, gained extensive experience in corporate auditing primarily at PricewaterhouseCoopers SA and has deep knowledge of the banking sector. He took the reins from his predecessor, Stephan A. J. Bachmann, as Chair of the Audit and Risk Committee.

At the Annual Shareholders' Meeting on 21 April 2016, Jack G. N. Clemons was appointed to the Board of Directors for a four-year term of office. After working in auditing as a partner at Deloitte, he went on to hold managerial positions in the consumer goods and retail sectors, most notably as the CEO of a multinational until 2015.

New head of the Business Support Division

BCV's Board of Directors appointed Christian Meixenberger to the Bank's Executive Board as head of the Business Support Division. Mr. Meixenberger holds an engineering degree and has broad expertise in banking technology and back-office operations. Prior to joining BCV, he was a member of the Executive Board and head of the Services Division of Banque Cantonale de Fribourg. He took up his position on 1 January 2017, replacing Aimé Achard, who has retired.

Shareholder in TWINT SA

BCV took a stake in the new company TWINT SA, alongside Switzerland's largest banks – UBS, Credit Suisse, Raiffeisen, Zürcher Kantonalbank, and PostFinance – as well as financial infrastructure operator SIX. TWINT SA merges mobile payment systems Paymit and TWINT to provide a mobile payment solution specifically designed for the Swiss market. BCV's decision to become a shareholder was in keeping with its strategic objective of achieving greater integration across its distribution channels and enhancing its digital banking services.

New Swiss accounting rules for banks

BCV's 2016 financial statements are published in accordance with the new Swiss accounting rules for banks, which have been applicable since the 2015 reporting period. As a result of these new accounting rules, we now report our financial results on a half-yearly rather than a quarterly basis, which means that only results at 30 June and 31 December are released. The information-exchange agreement between the Bank and the Vaud Cantonal Government was revised to take account of this change; the new version took effect on 1 January 2016.

Key projects and investments

Stratégie2018

The Bank's current strategic phase – *stratégie2018* – aims to continue developing all of the Bank's business lines. We will also work to improve our internal processes, making impeccable service quality our differentiating factor and ensuring our business lines keep pace with the fast-changing regulatory environment. In response to new trends in consumer behaviors, we are also seeking enhanced integration among our distribution channels – our branch offices, ATMs, call centers, online banking, and apps for smartphones and tablets.

In 2015, we provided all BCV employees with a full day of training to help instill a bank-wide culture and vision geared towards excellence in customer service. The training was organized in partnership with the EHL, the renowned Lausanne school of hotel management. Such

initiatives continued in 2016, with a number of internal measures both large and small – and even the smallest are designed to improve the service we offer customers. Other achievements included shortening the time it takes to process mortgage applications. For our business customers, we simplified the process for granting and managing loans, and for our bank operations as a whole, we adopted a faster, more systematic process for handling customer claims.

After completely revamping our website in 2015 and adding new features to our online and mobile banking platforms, BCV-net and BCV-net mobile, in early 2016, we started rolling out more new digital banking services in late 2016 and early 2017. These included an investment simulator, which offers clients the possibility of investing in BCV asset allocation funds directly online, and a system that enables clients to renew their mortgage loans over the internet. Starting in the first half of 2017, customers will also be able to receive advice via instant messenger and through video calls, and it will be possible for new clients to open an account remotely. Finally, the new mobile payment solution TWINT, resulting from the merger of Switzerland's two mobile payment systems, Paymit (offered by BCV since 2016) and TWINT, will be available from the second quarter of 2017.

FATCA agreement

On 14 February 2013, Switzerland and the USA signed a FATCA (Foreign Account Tax Compliance Act) implementation agreement under which the IRS will obtain identifying information on all bank accounts held abroad by US taxpayers. This agreement, a unilateral initiative of the US government, applies to all financial institutions worldwide. As a participating financial institution, BCV complies with the obligations contained therein. Our Global Intermediary Identification Number (GIIN) is shown on the back cover of this report.

Investments

In each of the past three years, we invested between CHF 50m and CHF 70m in infrastructure, equipment and IT maintenance and development.

Outsourcing of services

We once again entrusted the IBM banking IT center in

Lausanne to carry out activities that include data storage, operating and maintaining databases, operating IT systems, and printing and mailing banking documents. This form of IT systems management meets the legal requirements relative to outsourcing. The maintenance and development of our Osiris banking platform are handled in-house.

In addition, BCV uses valuation models supplied by Wüest & Partner (hedonic valuation functions for private residential properties and a capitalization valuation model for income-producing real estate). Our contract with Wüest & Partner complies with the legal requirements for the outsourcing of data storage.

Strategy and outlook

We aim to keep up the positive trend in our various businesses, even as the environment remains challenging for banks.

For the business lines, we are targeting:

- At-or-above market-rate growth in the retail banking and SME segments
- Above-market growth in onshore private banking
- Pursuit of niche growth drivers in asset management, structured products, and trade finance
- Continued development of our other business lines.

With *stratégie2018*, we will also work to improve our internal processes and sharpen our focus on the customer experience. This involves:

- Improving customer-service quality through a series of targeted initiatives
- Expanding multi-channel access to our products and services in line with our customers' changing expectations
- Embarking on various projects to enhance our internal operations
- Pressing ahead with our human resources strategy to

continue developing our employees' skills sets to keep pace with increasing customer needs.

In addition, the focus on service quality and our core values reflects our belief that a common culture shared by all employees is one of the key success factors for our strategy. From this foundation, we intend to generate sustainable growth and stable earnings going forward.

Financial targets

In today's low-interest-rate environment, we are seeking sustainable growth, with revenues and operating profit trending along the same lines as in recent years. Our targets include an ROE of 12–13%, a cost/income ratio of 57–59%, and a Core Equity Tier 1 (CET1) ratio of 13%. These targets should be viewed from a long-term perspective.

We intend to pay an ordinary dividend of CHF 22–27 per share as well as a special distribution of CHF 10 per share out of paid-in reserves. As announced in early 2013, we plan to maintain this distribution level for five years (i.e., until 2018), barring any significant changes in the economic or regulatory environment or in the Bank's situation.

Business trends at the main subsidiaries

Piguet Galland & Cie SA

Piguet Galland & Cie SA is a private bank with its head office in Yverdon-les-Bains and main branch in Geneva. It serves the needs of private and institutional clients across French-speaking Switzerland, offering a personalized approach to wealth management and tailor-made investment solutions. In 2016, Piguet Galland & Cie SA continued its expansion in French-speaking Switzerland by acquiring new advisory management mandates.

Net profit for the year stood at CHF 23.1m, driven by extraordinary income of CHF 17.6m, a 3% decrease in operating expenses and business volumes in line with expectations. AuM came in at CHF 5.5bn.

Gérifonds SA

Gérifonds SA is the fund manager for BCV and nine

other fund distributors. In 2016, assets of funds under management rose 6% to CHF 11.6bn – another record level. Gérifonds launched four new funds – two for BCV and two for AS Investment Management, a new partner company. Existing funds also saw high net inflows of capital. The combination of these factors resulted in total net new money of CHF 522m for the year. At end-2016, Gérifonds managed 113 funds, 66 of which were registered in Switzerland and 47 in Luxembourg.

Gérifonds' 2016 revenues were stable at CHF 13.0m, while net profit rose 43% to CHF 2.5m.

GEP SA

GEP SA manages the Fonds Immobilier Romand (FIR), a Swiss-registered real-estate fund launched in 1953 and open to private investors. FIR has a portfolio of close to 3,800 properties situated in prime, mainly urban, locations across French-speaking Switzerland. The fund's strategy is to develop high-quality housing at attractive prices in order to ensure stable returns for investors.

FIR's 61st financial year, which ended on 30 June 2016, was again a successful one. Rental income was up 3% to CHF 68m and total assets rose 2% to CHF 1.1bn. At the same time, FIR continued to enhance the quality of its property portfolio, carrying out major renovations aimed in particular at improving the buildings' energy efficiency. FIR is one of the best performing real-estate funds in its segment, delivering an average annual return of 9.9% over the past five years (5.1% in 2016).

Year in Review

Business Sector Reports

Retail Banking

- The negative-interest-rate environment did not directly affect our Retail Banking customers, as we still paid either zero interest or a slightly positive rate on their deposits.
- The mortgage book expanded by 2% to CHF 7.7bn, while customer deposits were down 5% to CHF 8.0bn following the end of BCV's partnership with PostFinance. Excluding this factor, customer deposits were up 3%.
- Sector revenues were flat at CHF 171m, and operating profit rose 37% to CHF 25m thanks to firm cost control.
- Retail Banking also carried out several projects to enhance customer service as part of the Bank's *stratégie2018* strategic phase.

Business and strategy

In 2016, Retail Banking employed 385 people. They serve the banking needs of individuals with assets of up to CHF 250,000 or mortgages of up to CHF 1.2m. In addition to current accounts, savings accounts, credit cards, and home loans, BCV offers a full range of banking products such as investments, financial planning services and trading via our online platform, TradeDirect, which is available at www.tradedirect.ch.

Most of BCV's customers first came to the Bank for retail banking services. We offer a comprehensive range of distribution channels: more than 60 branch offices providing dense coverage of Vaud, a network of over 230 ATMs across the Canton, a highly efficient call center, and an internet banking platform, BCV-net, that can also be accessed using mobile devices such as smartphones and tablets. BCV-net is used by 46% of our customers, and eight

out of every ten payments are made via this platform. Our retail banking operations are an integral part of our image as the bank of choice for the people of Vaud. We provide advice to customers in all phases of their lives, offering ongoing support through our broad array of products and services.

Retail Banking's experienced management and wide product range also make it a key training ground for BCV's staff. Many employees working in BCV's other business areas started their careers as trainees, interns or employees in Retail Banking. Retail continues to fulfill this role and frequently transfers staff to BCV's other divisions.

Market and competitive environment

Despite the difficult environment and weaker-than-expected growth worldwide, Vaud Canton's gross domestic product (GDP) grew an estimated 1.6% versus 1.2% in 2015 according to the latest CREA figures.

When the Swiss National Bank (SNB) brought in negative interest rates in early 2015, we decided not to apply these rates to our retail customers' current and savings accounts. We do not expect to reverse this decision, unless market conditions deteriorate significantly.

The SNB's decision to drop the EUR/CHF floor rate in January 2015 triggered an upswing in the Swiss franc and renewed volatility in the franc's exchange rate against other major currencies. As a result, many consumers decided to make purchases abroad and buy foreign currencies, particularly euros for people here in Vaud.

In a cooling real-estate market, with prices and transaction volumes both headed downwards, growth in our mortgage book also flattened out.

2016: business report

Retail Banking maintained its momentum in 2016, with further growth in business volumes. The mortgage book expanded by 2% to CHF 7.7bn. Customer deposits fell by 5% to CHF 8.0bn following the end of BCV's online brokerage partnership with PostFinance. Excluding this factor, customer deposits expanded by 3%.

Revenues were flat at CHF 171m, and operating profit rose 37% to CHF 25m thanks to firm cost control.

As in prior years, several projects designed to enhance service quality came to fruition in 2016. We shortened the processing time for mortgage loan applications, and customers can now renew their loans online without having to visit a branch office. We also added an investment

simulator and a personal money management tool to the range of digital banking services we provide through our website and mobile apps. And after taking a stake in TWINT SA in the fall of 2016, we plan to roll out the TWINT mobile payment solution in the second quarter of 2017.

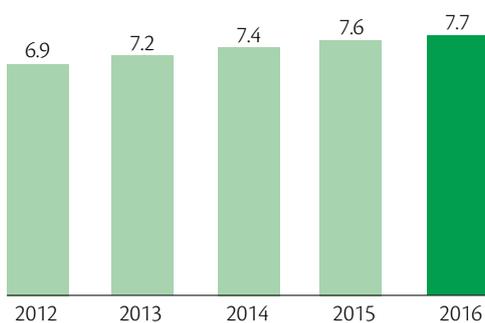
Objectives and outlook

Over the next few years, Retail Banking will continue implementing various initiatives to deliver an improved customer experience embracing all distribution channels. Through our close ties with customers and highly professional approach, we aim to maintain our position as the bank of choice for the people of Vaud, while continuously adapting to customers' changing behaviors and market trends. Our advisors, both at branches and in our call center, will be even more proactive. We are in the process of developing our multi-channel banking services significantly.

2012–2016 financial data

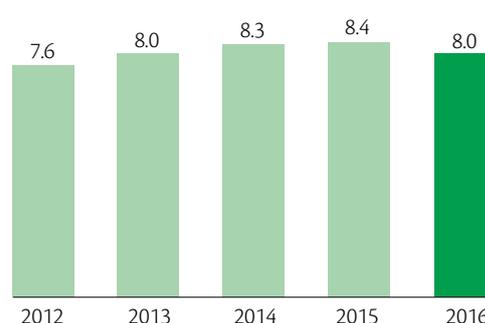
Mortgage loans

in CHF billions



Customer deposits

in CHF billions



Key figures

| | 2016 | 2015 |
|---|-------|-------|
| Total revenues (CHF millions) | 171.2 | 171.4 |
| Operating profit (CHF millions) | 24.6 | 17.9 |
| Cost/income ratio (excluding goodwill amortization and write-downs) | 84% | 87% |
| ROE (based on net profit) | 9.1% | 6.9% |
| Headcount | 385 | 382 |

2015 figures were adjusted to facilitate like-for-like comparison

Corporate Banking

- Corporate Banking saw firm business growth in 2016. Vaud SMEs held up very well against the difficulties caused by the Swiss franc's rise against the euro. The Trade Finance business picked up, with both transaction volumes and commodity prices on the rise. The Large Corporates business experienced high levels of volatility, in line with the trend seen in recent years.
- Lending and commitments climbed 6% to CHF 15.7bn, while deposits grew 7% to CHF 8.7bn.
- The Sector's revenues rose 2% to CHF 237m, and operating profit was up 3% to CHF 131m.
- Net new provisioning needs were low, attesting to the quality of our corporate loan book.

Business and strategy

The Corporate Banking Sector comprises three front-line departments: SMEs, Large Corporates and Trade Finance. The product range covers all financing needs (e.g., construction loans, financing of production equipment, working capital and international trade finance) and provides cash-management services along with instruments for hedging exchange-rate and interest-rate risk.

Corporate Banking is continuing to expand its SME customer base in order to consolidate its already-strong presence in the Vaud economy. More than half of the Canton's SMEs bank with BCV, and BCV has relationships with two thirds of Vaud's major corporations. The Sector's Large Corporates Department offers a broad range of services to companies elsewhere in French-speaking Switzerland and, on a more selective basis, in German-speaking areas of the country. The Lake Geneva region is a global center for commodities trading and is home to a large number of trading firms. BCV has recognized strengths in serving these companies, particularly in the key markets in which we specialize, such as metals and softs, and is working to grow its business in refined petroleum products. The Sector focuses on certain key markets and systematically monitors all of its trade finance transactions.

Market and competitive environment

Over the past few years, Vaud SMEs have proven adept at dealing with the difficulties arising from the strong Swiss franc and continued negative interest rates. The Vaud real-estate market slowed for the third consecutive year, with lower asking prices and fewer transactions.

The negative-interest-rate environment also led to a significant increase in churn in the large corporate segment, as we charged some of these companies interest on their cash deposits.

The price of oil soared to USD 56 per barrel (+59%) at the end of 2016 as a result of the agreement reached by OPEC countries to cut production levels. In addition, metals prices were lifted by China's measures to shore up its construction industry. These factors gave a boost to our Trade Finance business after several lackluster years.

2016: business report

In 2016, business volumes rose, with lending and commitments up 6% to CHF 15.7bn. Deposits grew 7% to CHF 8.7bn.

Although companies were still flush with cash, lending in the SME segment continued to expand (+2%), as did lending and commitments in the Large Corporates segment (+10%). Trade Finance business volumes rose from the low levels seen in recent years, mainly due to the upturn in both transaction volumes and commodity prices.

The Sector's revenues climbed 2% to CHF 237m, while operating profit rose 3% to CHF 131m.

Credit-risk provisions in Corporate Banking were low again in 2016, thanks to the resilience of the local economy and effective risk management.

Objectives and outlook

Growth is picking up but economic conditions are likely to remain tough, with low interest rates and a Swiss franc that many regard as overvalued. More than ever, Corporate Banking will maintain maximum responsiveness to the needs of its SME customers, continuing to stand with them in still-uncertain economic times.

The Trade Finance and Large Corporate businesses will maintain their approach, based on maximizing profitability in line with the Bank's risk profile.

2012–2016 financial data

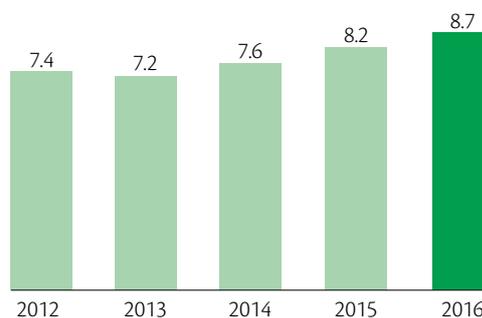
Lending and off-balance-sheet commitments

in CHF billions



Customer deposits

in CHF billions



Key figures

| | 2016 | 2015 |
|---|-------|-------|
| Total revenues (CHF millions) | 236.9 | 232.6 |
| Operating profit (CHF millions) | 130.6 | 127.2 |
| Cost/income ratio (excluding goodwill amortization and write-downs) | 38% | 39% |
| ROE (based on net profit) | 8.4% | 8.3% |
| Headcount | 186 | 186 |

2015 figures were adjusted to facilitate like-for-like comparison

Wealth Management

- The Wealth Management Sector experienced different business trends across its various segments in 2016. The offshore private banking business, where the regulatory environment is undergoing major change, continued its realignment, while onshore private and institutional wealth management achieved firm business growth, including in German-speaking Switzerland.
- The Sector's assets under management decreased 6% to CHF 64.2bn as a result of the transfer of assets managed by Swisscanto and the realignment of the Bank's offshore private banking business. The mortgage book expanded by 4% to CHF 7.4bn.
- The Sector's revenues and operating profit were flat at CHF 320m (-1%) and CHF 98m (-0%), respectively.

Business and strategy

BCV Group's wealth management business comprises the activities of the parent company and those of its subsidiaries Piguet Galland & Cie SA, G rifonds SA, and GEP SA. Within the parent company, wealth management is shared by two divisions. The Private Banking Division serves affluent and high-net-worth individuals, whereas the Asset Management and Trading Division works with institutional clients. With 510 employees in wealth management, BCV Group has a major regional presence in private banking. We are also the Canton of Vaud's leading institutional asset manager.

In light of the Vaud region's strong potential in private banking, the Wealth Management Sector is maintaining the growth strategy initiated in 2009. Because BCV operates in all areas of banking, efforts to attract private clients can be coordinated with other business sectors, creating valuable synergies. For example, the Bank's private banking business benefits from a steady stream of high-potential referrals from Retail Banking, whose client base includes over half the 780,000+ people living in the Canton, and from Corporate Banking, which is very active on the local business scene. BCV is already the leading institutional asset manager in Vaud Canton. We are now pressing ahead with our strategy to grow this

business elsewhere in Switzerland. To achieve this, we are capitalizing on the occupational pension expertise we have gained through Fondation BCV Deuxi me Pilier, which has around 550 member companies. Another strength lies in the discretionary management agreements we offer to pension funds. Having previously focused our activities in French-speaking Switzerland, we are seeking to expand our business in the German-speaking part of the country in order to maximally leverage our investment policy and our ability to create high-value-added financial products.

Piguet Galland & Cie SA is a 99.7%-owned subsidiary of BCV. It was created following the merger between Banque Piguet & Cie SA and Banque Franck Galland & Cie SA, which BCV acquired in 2011. It operates out of Geneva, Lausanne, Yverdon-les-Bains, Nyon and Neuch tel. Piguet Galland & Cie SA aims to be one of the leading wealth managers in French-speaking Switzerland, offering an exclusive, high-end service.

G rifonds SA, which is a wholly owned subsidiary, provides BCV and other partners with valuable expertise in creating, distributing, managing and administering investment funds. Its expertise and leading position in the fund market in French-speaking Switzerland have enabled it to build a solid and rapidly expanding portfolio of clients outside BCV Group.

GEP SA, founded in 1953, is a wholly owned subsidiary of BCV. It has unique expertise in real-estate fund management. It manages Fonds Immobilier Romand (FIR), a Swiss-registered real-estate fund listed on the SIX Swiss Exchange that invests exclusively in residential properties in French-speaking Switzerland.

Market and competitive environment

BCV provides local private banking clients with bespoke advisory services and expert knowledge through an unrivaled network of nearly 100 advisors spread across nine regions in Vaud Canton. We are among the Canton's leading players in private wealth management.

The recent paradigm shift in the offshore private banking business has forced Swiss banks to review the services they provide to offshore clients.

When it comes to institutional asset management, BCV remains a local heavyweight. We have the largest

market share in Vaud and continue to enjoy an excellent reputation. Efforts in recent years to grow our institutional business in German-speaking Switzerland through our representative office in Zurich have paid off. That market is more competitive than the one in French-speaking Switzerland, yet we have signed a number of asset-management agreements.

2016: business report

For the Wealth Management Sector, the trend observed in recent years continued in 2016: there was solid business growth in the onshore business, but outflows in the offshore business, as expected.

Institutional asset management saw firm growth and substantial inflows, particularly in German-speaking Switzerland, which accounted for around one third of all new money in that business.

The Sector’s assets under management nevertheless decreased 6% to CHF 64.2bn as a result of the transfer of assets managed by Swisscanto following its acquisition by ZKB and the realignment of our offshore private banking business. The mortgage book grew 4% to CHF 7.4bn

last year. Wealth Management’s revenues and operating profit were flat at CHF 320m (–1%) and CHF 98m (–0%), respectively.

Objectives and outlook

We will press ahead with the growth strategy that we implemented several years ago in onshore wealth management, with the aim of becoming the market leader in Vaud Canton.

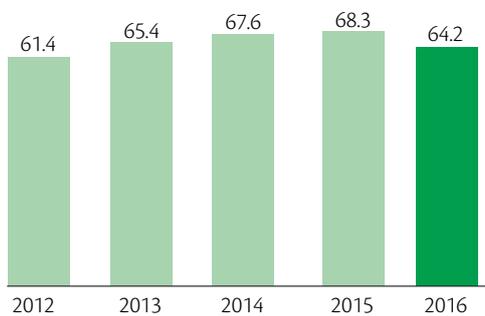
In institutional asset management, we will continue to grow our business in German-speaking Switzerland through our representative office in Zurich. As a creator and distributor of investment products, Asset Management will continue to design its investment strategies with a sharpened focus on the risk/return profile. The product range will be expanded in an effort to offer investors a more diverse choice of regions, asset classes and investment styles.

Piguet Galland & Cie SA’s management is continuing its efforts to generate synergies with BCV, capitalizing fully on work done at the parent company. It is also aiming to develop its business in French-speaking Switzerland’s wealth management market.

2012–2016 financial data

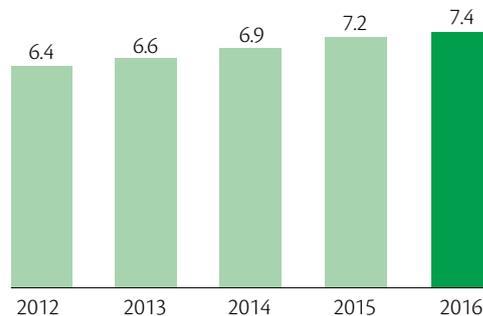
Assets under management

in CHF billions



Mortgage loans

in CHF millions



Key figures

| | 2016 | 2015 |
|---|-------|-------|
| Total revenues (CHF millions) | 319.9 | 324.6 |
| Operating profit (CHF millions) | 98.3 | 98.3 |
| Cost/income ratio (excluding goodwill amortization and write-downs) | 67% | 67% |
| ROE (based on net profit) | 24.4% | 24.8% |
| Headcount | 510 | 504 |

2015 figures were adjusted to facilitate like-for-like comparison

2012 figures for assets under management were adjusted to exclude custody-only assets

Trading

- Currency trading was strong last year yet fell short of the high levels posted in 2015, in which business was boosted by the removal of the EUR/CHF floor rate. The Bank's customers carried out spot forex transactions and set up hedges throughout 2016 in response to renewed volatility and economic growth in the region.
- Issuance of structured products dropped sharply in 2016.
- Compared with 2015, trading revenues fell 9% to CHF 61m, and operating profit dropped 19% to CHF 31m.
- Risk levels stayed very low, as BCV's trading activities are focused primarily on customer-driven transactions.

Business and strategy

We aim to meet our customers' trading needs and to offer them a broad array of products and services. To achieve this, we have one of the largest trading rooms in French-speaking Switzerland. Our traders operate directly on the following exchanges: SIX Swiss Exchange, Eurex and Scoach (Switzerland). Our Trading Sector focuses on investment and hedging products (currencies, equities, bonds, derivatives and structured products) that are denominated primarily in Swiss francs and aimed at clients based mainly in Switzerland. More than a third of customers who trade currencies with BCV use our e-FOREX trading platform.

Our trading room focuses on client transactions. This means that the Bank's risk levels are low.

The Sector's activities come under the Asset Management & Trading Division, which encompasses asset management, investment policy and the trading room. This combination enables us to make the most of synergies between the trading room and the Asset Management Department, helping us to provide investment products that are responsive to customer needs and consistent with our investment policy.

Market and competitive environment

The main global stock markets posted mixed results in 2016. In the United States, the economic recovery and the outcome of the presidential election drove markets to all-time highs. Negative newsflow, including the results of the Brexit referendum, weighed on European markets. The main European indices still managed to finish the year in positive territory, with the notable exception of Switzerland's SMI, which fell 6.8% to 8,219.87 points. Rising uncertainty also took its toll on transaction volumes, which declined sharply in 2016. Trading volumes in the Swiss stock market were nearly 7% lower than in 2015.

In the forex market, both the euro and dollar moved sideways against the Swiss franc. The euro hovered between CHF 1.07 and CHF 1.12, ending the year down 1.3% at CHF 1.07. The dollar ranged from CHF 0.95 to CHF 1.03, finishing at CHF 1.02 (+1.6%).

2016: business report

Currency trading volumes declined relative to 2015, which had experienced a spike in activity following the SNB's decision to drop the EUR/CHF floor rate. This business nevertheless performed better than in 2013 and 2014. Issuance of structured products, however, was down sharply.

Overall, trading revenues slipped 9% to CHF 61m, while operating profit fell 19% to CHF 31m.

The Sector's risk profile remained very low, with an average VaR (1-day, 99%) of CHF 0.3m over the course of the year.

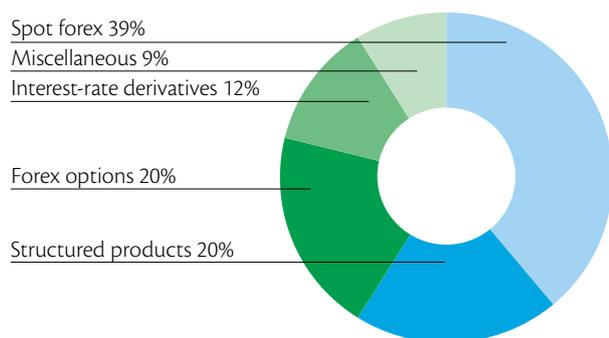
Objectives and outlook

In the coming years, our trading room will further develop its range of services to focus on customers' core trading needs. Our products for both hedging and investment purposes will continue to meet strict transparency criteria.

In forex and structured products, the Sector will seek to win new customers and build on existing relationships by offering excellent service and products.

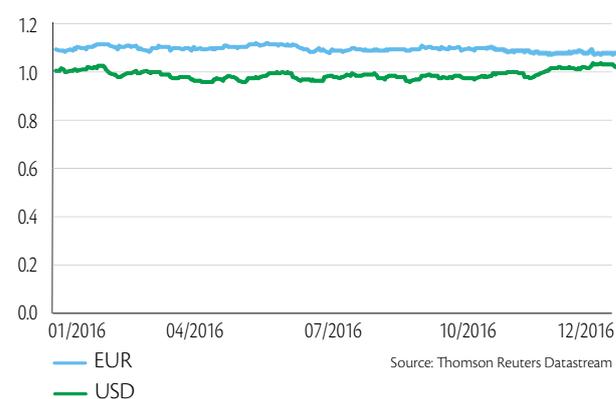
2016 financial data

Breakdown of trading income by market segment



Exchange rates

versus CHF



Key figures

| | 2016 | 2015 |
|---|-------|-------|
| Total revenues (CHF millions) | 60.9 | 67.2 |
| Operating profit (CHF millions) | 30.7 | 38.0 |
| Cost/income ratio (excluding goodwill amortization and write-downs) | 47% | 42% |
| ROE (based on net profit) | 24.5% | 27.1% |
| Headcount | 57 | 58 |

2015 figures were adjusted to facilitate like-for-like comparison





Risk Management

1. Risk Management

1.1 Objectives

The business of banking is to take on strategic and business risk, market risk and credit risk in order to create economic profit. Indirectly, this entails exposure to operational risk. BCV manages these risks in an integrated and coherent manner, using a process that encompasses all of the Bank's activities. The goals of the risk management process at BCV are to ensure that:

- BCV's risk exposure is evaluated, monitored and reported in a manner that is appropriate to the economic and regulatory environment
- BCV's risk-taking capacity is in line with its risk profile
- BCV earns optimal returns on the risks that it takes and hence on the equity capital committed.

1.2 Principles

Risk management at BCV is based on the following ten principles:

1. BCV takes on strategic and business risk, credit risk and market risk with the aim of generating economic profit.
2. BCV seeks to minimize its exposure to the operational risk it is exposed to as a result of its activities.
3. Every risk that BCV takes must fall clearly within the purview of the Bank's businesses and be in line with the targeted risk profile.
4. The level of risk taken by BCV is in keeping with its risk tolerance with regard to net profit fluctuations and the targeted level of share capital.
5. BCV takes and maintains positions only when it knows the risks and is able to manage them.
6. BCV assesses and monitors all risks for their potential financial impact (decreases in profit and/or in share capital), regulatory impact (that could lead to restrictions on the right to conduct business), and impact on the Bank's reputation.
7. The same definitions, the same methodological approaches and the same organizational principles are applied in managing risk bank-wide.
8. BCV continually refines its methods and its risk assessment and monitoring processes, selecting the most appropriate approach for each set of risks taken.
9. BCV pursues a culture of risk management and aims to be highly skilled in this field. The Bank follows industry best practices and the recommendations of the Basel Committee.
10. BCV strives for full in-house expertise in all the risk management models and tools that it uses.

1.3 Classification of risks

BCV monitors four categories of risk in all of its activities:

- **Strategic and business risk**, which arises from economic or regulatory changes that could have an adverse effect on the Bank's strategic choices in the case of strategic risk, or from competitive changes that could have an adverse effect on business decisions for a given strategy in the case of business risk.
- **Credit risk**, which arises from the possibility that a counterparty may default. Credit risk exists before and during the unwinding of a transaction.
- **Market risk**, which arises from potential adverse changes in market parameters, particularly prices, implied volatility and other market base effects (e.g., correlation between asset prices and market liquidity). Liquidity risk, both in terms of possible difficulties with the structural funding of activities and potential problems with short-term liquidity management, is also deemed to be a component of market risk.
- **Operational risk**, which arises from a possible inadequacy or failure relating to processes, people and/or information systems within and outside the Bank. Operational risk includes the risk of non-compliance, i.e., the risk of the Bank breaching legal requirements, standards and regulations.

BCV analyzes and manages these risks on the basis of their potential impact. Three kinds of impact are considered:

- The financial impact, that is, a decrease in the Bank's net profit, the book value of its capital and/or the economic value of its capital.
- The regulatory impact, that is, intervention by the regulators in the form of inquiries, sanctions, increased monitoring or a restriction on banking activities.
- The reputational impact on the image that the Bank projects to the outside world.

1.4 Governance

All risks in all areas of the Bank are managed according to the same basic principles of governance and organization. The main responsibilities in the area of risk management may be summarized as follows:

- The Board of Directors establishes BCV's fundamental risk management principles and decides the strategy it will pursue in taking on risk.
- The Audit and Risk Committee ensures that risk management at BCV is implemented and operational, as decided by the Board of Directors.
- The Executive Board is responsible for ensuring that risk-management procedures are implemented and operational, and for monitoring the Bank's risk profile. It monitors strategic and business risk and supervises the Executive Board Risk Management Committee in monitoring and reporting these risks. The committee is chaired by the Chief Financial Officer (CFO), and includes the CEO, other division heads, and the head of the Risk Management Department.
- Division heads are responsible for conducting and monitoring the activities of their divisions, regardless of whether the division has a front-line, steering or business-support role. They have initial responsibility for overseeing, identifying and managing the strategic, business, credit, market and operational risks arising from the activities of their divisions.
- The CFO also assumes the role of Chief Risk Officer. The CFO, with the support of the Risk Management Department, which reports to the CFO, puts forward risk-management policy and strategy, monitors the Bank's aggregate risk profile, is responsible for capital adequacy, and helps foster a culture of risk management among staff.
- The Credit Management Division, under the Chief Credit Officer (CCO), is responsible for analyzing risk for all types of credit risk assumed by the Bank and, up to the limit of its approval authority (see below), for credit decisions, as well as for monitoring risk exposures on a counterparty basis.

1.5 Risk Management Department

The Risk Management Department's mission is to develop and continually improve the Bank's methods and principles for managing credit, market and operational risk, to enhance the Bank's internal control system, to monitor the Bank's risk profile, and to oversee and execute risk reporting. The Risk Management Department ensures that the Bank's internal control system is properly implemented and in keeping with the Bank's needs; the Department is also in charge of submitting all risk reports to the Bank's governing bodies. Finally, the Department is responsible for the overnight monitoring of market risk for BCV's trading floor.

1.6 BCV risk profile - key indicators

The main indicators of the Bank's risk profile are summarized in the table below.

2. Managing credit risk

2.1 Customer credit risk

Managing credit risk is a core competence at BCV. Each phase of the business of extending credit calls for particular expertise in managing risk.

- First, the lending decision involves processes and methods for analyzing credit risk that ensure an objective and factual assessment while still meeting the operational imperatives of the business.
- Second, outstanding loans are continuously monitored, not just on an individual basis but also at the level of the loan portfolio as a whole. This approach allows the credit-risk profile to be monitored to ensure that it remains consistent with strategic objectives, and makes early detection of increases in risk possible.
- Third, impaired loans are managed differently, following clearly defined procedures which are designed to assist the debtor in distress as much as possible and thereby protect the interests of the Bank, as well as those of its depositors, creditors and shareholders.

The three phases of customer credit activities are described in more detail below.

BCV risk profile

| | | 31/12/13 | 31/12/14 | 31/12/15 | 31/12/16 |
|--|---|----------|----------|----------|----------|
| BCV Group capital adequacy ¹⁾ | • FINMA risk-weighted assets (CHF billions) | 16.4 | 16.8 | 16.6 | 17.6 |
| | • FINMA capital ratio | 17.9% | 17.2% | 17.7% | 16.9% |
| | • BIS risk-weighted assets (CHF billions) | 16.4 | 16.8 | 16.6 | 17.6 |
| | • BIS Tier 1 capital ratio | 17.8% | 17.1% | 17.6% | 16.8% |
| | • BIS Total capital ratio | 17.9% | 17.2% | 17.7% | 16.9% |
| Non-impaired loans (parent company) | • Customer loans, on and off balance sheet ²⁾ (CHF billions) | 29.8 | 30.8 | 30.3 | 31.2 |
| | • Expected loss ratio (relative to amount drawn) | 13 bps | 13 bps | 14 bps | 14 bps |
| Impaired loans (parent company) | • Impaired loans ³⁾ (CHF billions) | 0.3 | 0.2 | 0.2 | 0.2 |
| | • As a % of total customer loans and due from banks | 0.9% | 0.7% | 0.6% | 0.6% |
| | • Specific provisioning ratio | 41% | 34% | 36% | 39% |
| Market risk on the trading book (parent company) | • Trading Dept.: VaR ⁴⁾ (CHF millions, 1-day, 99%) | 0.2 | 0.2 | 0.3 | 0.3 |
| | • Asset mgt. nostro portfolio: VaR ⁴⁾ (CHF millions, 180-day, 99%) | 1.9 | 0.8 | 0.8 | 0.9 |
| Market risk on the banking book (parent company) | • VaR (% of economic value of equity capital, 90-day, 99%) | 4.2% | 4.8% | 5.3% | 4.7% |
| Operational risk (parent company) | • New provisions and direct losses (CHF millions) ⁵⁾ | 24.3 | 26.8 | 20.6 | 2.7 |

¹⁾ Determined according to Basel II in 2009-2012 and according to Basel III since 2013

²⁾ Excluding financial investments (bonds)

³⁾ Net commitments (commitments to impaired borrowers for which the provision is above 0)

⁴⁾ Average VaR for the year

⁵⁾ Including gains and changes in provisions

2.1.1 The lending decision

Risk strategy and credit policy

Loans to customers represent the Bank's largest asset position. BCV takes on credit risk with the aim of building a quality loan portfolio, primarily by lending to counterparties in Vaud Canton. For each of the various customer segments, the Bank sets limits in terms of maximum exposure, types of credit services offered, and targeted average quality expressed in terms of expected loss and required capital. The risk strategy and credit policy are reviewed regularly.

Separation of powers and lending authority

Sales (i.e., front-office) functions are kept strictly separate from credit analysis and approval functions. Employees in front-office departments are responsible for developing customer relationships, loan products, and loan-product pricing, whereas credit analysis and approval are the domain of the Credit Management Division, headed by the CCO. Analysis of credit risk is based on tools (rating models) developed by the Risk Management Department, and on assessments by credit analysts. Some low-risk forms of lending, such as standard mortgage loans, are directly approved by the front office on the basis of scores obtained from rating models defined by the Risk Management Department.

Approval limits for customer lending are based on the amount of the loan and the level of expected loss. Depending on the magnitudes of these two factors, a loan may require the approval of an analyst, a sector credit committee, the CCO, the Executive Board Credit Committee or the Board of Directors. Approval limits are specified in the Bank's lending policy rule book, which is validated by the Board of Directors.

Analysis of default risk

Assessing a counterparty's default risk is the centerpiece of credit-risk analysis. Each counterparty is assigned an internal default rating that reflects its probability of default. The Bank applies seven main ratings, which are divided into a further 16 clearly defined sub-ratings. Default-risk assessment consists of applying a rating model and supplementing this evaluation with analysts' assessments, which are based on established guidelines and criteria. Different rating models are used for counterparties with different characteristics, but the choice of rating model for a particular counterparty is governed by strictly defined considerations. The main rating models are those for individuals, SMEs, real-estate professionals, trade finance, large corporations, municipalities within

Vaud, and banks. The models are "scoring" models and use both financial and qualitative variables. They are based on statistical techniques and meet the requirements of the Basel III Accord for Internal Ratings-Based (IRB) approaches. The models are under the responsibility of the Risk Management Department and are subject to independent validation and continuous improvement.

Analysis of collateral

For any loan, the calculated loan-to-value ratio and expected loss given default depend directly on the valuation of the collateral. Collateral is valued according to current market conditions and the assessments of real-estate experts. The valuation is reviewed at predetermined intervals and whenever certain clearly defined events occur. The Bank determines the value of real estate in accordance with the recommendations of the Swiss Bankers Association. Single-family homes are valued using a hedonic method. Multi-unit residential and commercial properties are valued on the basis of their revenue yield. When a loan is granted, the loan-to-value ratio and expected loss given default are established on the basis of the current value of the collateral. The Bank applies loan-to-value criteria that are in line with common practice in the Swiss banking industry.

Expected loss and risk-adjusted pricing

For all loan products, interest rates are determined individually, taking into account the cost of the loan and the Bank's ROE objectives. The cost of the loan includes the funding or replacement cost, the administrative cost and the expected loss. Expected loss is determined as a function of the counterparty's probability of default (i.e., its internal counterparty default rating) and the loss given default. The loss given default depends in turn on the amount exposed to credit risk and the value of the collateral.

In trade finance, expected loss is calculated for each transaction in accordance with a model based on the Basel III slotting criteria. This approach enables the Bank to price all loans in a way that best reflects the quality of each transaction.

2.1.2 Credit monitoring

Monitoring

A system of alerts and internal renewal reviews is used to detect individual situations in which risk has increased. The system of alerts is based on close monitoring of exceeded limits and on other factors (including automatic

re-ratings) that may indicate situations of increased risk or even impairment. Whenever instances of exceeded limits are detected, specific actions are taken by BCV's credit advisors and analysts. The system of internal renewal reviews sets a maximum time interval between credit analyses for positions of a given size and for counterparties for which no intervention has been required because no alert has been triggered. This time interval is set according to the nature of the credit and the type of counterparty.

Analyzing the loan portfolio

The risk profile of the loan portfolio is reviewed quarterly. For each customer segment, credit-risk exposures, risk-weighted assets, expected loss (amount and rate), provisioned commitments, value adjustments, and risk concentration indicators are analyzed and compared with prior years. Changes in the exposures on specific portfolios are also analyzed. The results of these analyses are reported to management.

2.1.3 Managing impaired loans

Credit recovery management policies

Impaired loans are managed by the Credit Recovery Management Department within the Credit Management Division. Each case is handled according to one of five possible strategies. The choice of strategy is based on established criteria that, for business borrowers, take into account the possibility of successful turnaround as well as the borrower's willingness to collaborate actively with the Bank.

Provisioning

The Bank establishes specific provisions for each impaired loan. The need for provisions is determined individually for each impaired loan based on an analysis performed according to a clearly defined procedure. In this analysis, collateral is taken at its liquidation value. This is the net amount that the Bank could expect to obtain by liquidating the collateral at current market conditions, after deducting the expenses of realizing the transaction and any costs of owning the collateral. The liquidation value is obtained by applying a haircut.

2.2 Interbank credit risk

2.2.1 Risk strategy and lending policy

Credit-risk exposure on other banks arises mainly from treasury management, from BCV's trading activities in over-the-counter derivatives, from securities and payment

transactions (unwinding), and from bank guarantees on trade-finance operations. The Bank reviews the limits applicable to each bank counterparty at least once a year.

2.2.2 Lending authority and monitoring

Authority to approve bank-counterparty limits is expressed in terms of limits on exposures before settlement and maximum settlement exposure. Depending on the magnitude of the limit, interbank credit lines may require the approval of the Board of Directors, the Executive Board Credit Committee or the Bank-Counterparty Committee. Approval limits are specified in the Bank's lending policy rule book approved by the Board of Directors.

The Corporate, Trade Finance and Bank Credit Analysis Department, which reports to the CCO, is responsible for analyzing interbank credit risk and monitoring drawdowns on interbank credit limits.

2.2.3 Collateral management

BCV has entered into collateral management agreements with most of its bank counterparties that cover all its trading activities in over-the-counter derivatives. These agreements significantly reduce the Bank's exposure to credit risk.

2.3 Exposure to credit risk

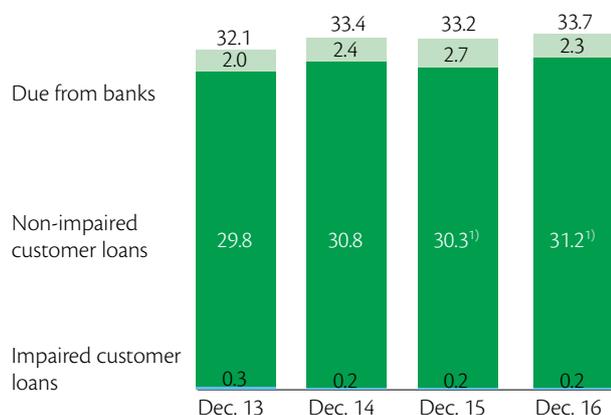
The Parent Company's total lending commitments amounted to CHF 33.7bn at 31 December 2016, a year-on-year increase of 1.7%. At CHF 2.3bn, bank-counterparty exposures represented 7% of total commitments.

For non-bank-counterparty lending, the Bank's business is largely with customers located in Vaud Canton and accounts for 81% of total lending. BCV's corporate loan book reflects the economic structure of the Canton, albeit with a somewhat larger exposure to real estate and construction (41%).

The 2016 breakdown by sector was generally stable compared with 2015. Retail and private banking clients remained the largest sector in total non-impaired loan-book exposures, at 54% at end-2016.

Customer loans and amounts due from banks

CHF billions, on and off balance sheet, for the parent company¹



¹⁾ Excluding financial investments

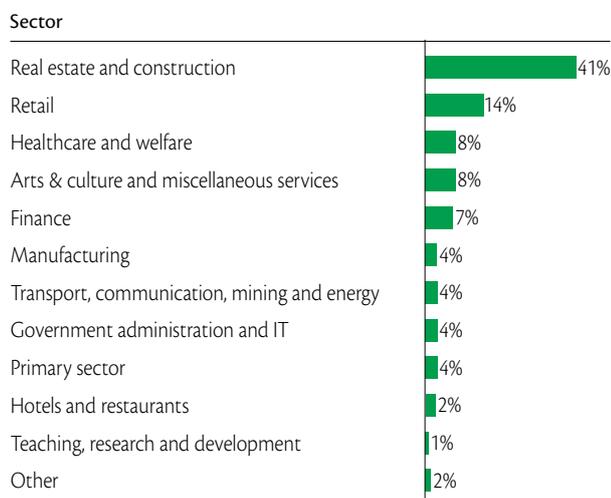
Customer loans by geographical zone

as a % of on-balance-sheet customer loan exposure, for the parent company

| Client domicile | 31/12/2015 | 31/12/2016 |
|--------------------------------|------------|------------|
| Vaud Canton | 81% | 81% |
| Rest of Switzerland | 13% | 13% |
| European Union + North America | 2% | 2% |
| Other | 4% | 4% |

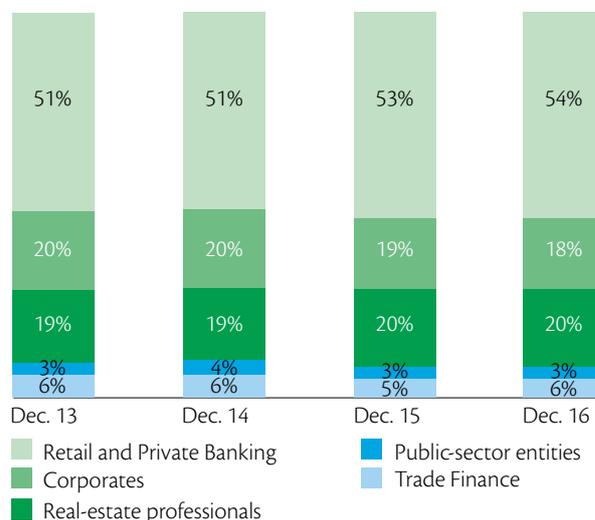
Corporate loans by economic sector

as a % of on-balance-sheet corporate loan exposure, for the parent company, at 31 December 2016



Customer loans by segment

as a % of total non-impaired customer loan exposure, for the parent company

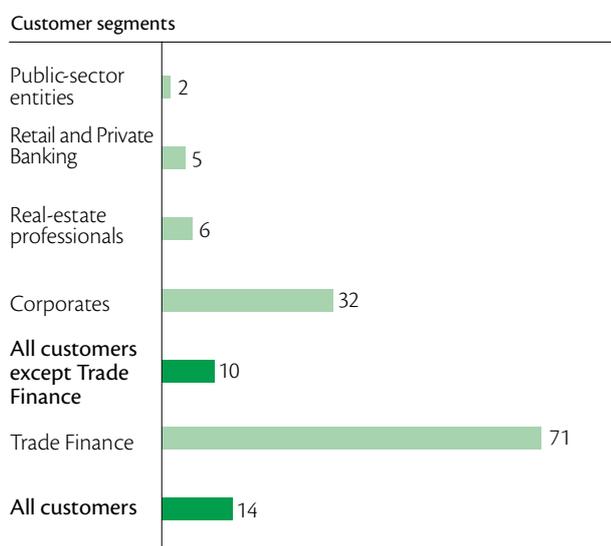


The low expected loss ratio and impaired loan level attest to the quality of the Bank's loan book. The expected loss ratio on drawn loans reflects counterparty quality, the degree of credit coverage and the amount of undrawn limits. For non-impaired customer loans as a whole, the expected loss ratio was 14 basis points, or 10 basis points excluding trade-finance exposures. Impaired loans were CHF 206m and represented 0.6% of total exposures.

The Basel III Pillar 3 Report, available on the BCV Investor Relations iPad app and the Bank's website, www.bcv.ch, contains more detailed information on the risk profile of the Bank's loan portfolio.

Expected loss rate

expressed in basis points of drawn customer loans, including OTC derivatives, at 31 December 2016



3. Market risk

BCV takes on market risk in conducting its trading activities and also in managing its interest-rate risk on the banking book. With appropriate risk management, the Bank can expect to earn a return commensurate with the risk that it takes.

3.1 Market risk on the trading book

3.1.1 Risk strategy and trading policy

All trading activities are managed within the Asset Management & Trading Division. A distinction is made between the trading portfolio, which includes all the Trading Department's positions, and the financial-management nostro (i.e., proprietary) portfolio, which is managed by the Asset Management Department.

The Trading Department carries out market transactions primarily in equities, fixed-income instruments, forex and precious metals on behalf of clients. It has also acquired expertise in structured products. The Trading Department is active along the entire structured product value chain, from issuing to market-making.

The Asset Management Department is responsible for the financial-management nostro portfolio, which is used to assist in the creation of new asset management funds and to maintain a certain amount of liquidity, while keeping risk-taking to a minimum.

3.1.2 Organization

All new products and instruments issued by the Asset Management & Trading Division are validated by the Division's Product and Instrument Committee (PIC), which is chaired by the Executive Board member in charge of the Asset Management & Trading Division and includes the Division's department heads, the head of the Risk Management Department and the head of the Back Office Department. This process ensures that before a product is launched, all requirements in the areas of risk management, ALM, treasury management, back offices, legal, compliance and IT have been met.

For all trading positions, overnight monitoring of market risk is under the responsibility of the Market Risk Unit within the Finance & Risks Division's Risk Management Department. This ensures that control of market risk is performed independently of the Asset Management & Trading Division. The Market Risk Unit also defines the risk control measures and monitors the appropriateness of risk control for new trading products.

3.1.3 Exposure to market risk on the trading book

Various techniques are used to measure market-risk exposure within the Trading Department's trading portfolio:

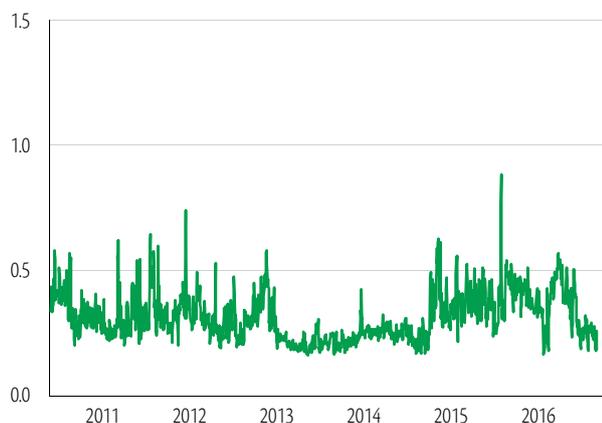
- Historical overnight value-at-risk (VaR) with a one-day time horizon and a confidence level of 99%
- Analysis of potential losses using static stress tests
- Sensitivity metrics such as delta, gamma, vega, theta and rho.

Limits have been established for each of the metrics currently in use. Limit utilization is monitored and reported daily by the Market Risk Unit.

Throughout 2016, VaR for the trading book remained low, at an average of around CHF 0.3m.

VaR on the trading portfolio (1-day, 99%)

in CHF millions



3.2 Market risk on the banking book

The main components of market risk on the banking book are interest-rate risk and liquidity risk.

3.2.1 Interest-rate risk on the banking book

Exposure to interest-rate risk on the banking book arises from differences between the size and term maturities of assets and liabilities. Movements in the yield curve and changes in customer behavior give rise to interest-rate risk, which has a direct effect on the Bank's interest income and the economic value of its equity capital.

The strategy and limits for interest-rate risk are defined by the Executive Board's Asset and Liability Management Committee (ALCO) and then approved by the Board of Directors. The ALM and Financial Management (ALM-FM) Department of the Finance & Risks Division is responsible for operational management of interest-rate risk on the banking book.

Here, the goal is to control the interest margin and the duration of equity.

Exposure to interest-rate risk is measured in terms of value-at-risk (VaR), equity duration, yield-curve sensitivity of the economic value of equity capital, and loss of interest margin under interest-rate and client-behavior stress scenarios.

3.2.2 Liquidity risk on the banking book

Exposure to liquidity risk arises from the Bank's obligation to honor its commitments to its clients and counterparties, meet regulatory requirements, and ensure that it can continue funding its activities. Liquidity risk is addressed through short-term liquidity management and long-term funding management. BCV's strategy is to minimize liquidity risk using these two dimensions. The Bank limits its exposure to liquidity risk by ensuring that it has a sound balance sheet, including a liquidity reserve to cover the impact of a major liquidity outflow, as well as a sustainable and diversified long-term funding structure so that it can expand its activities. This involves maintaining the safety margins set by the Board of Directors relative to regulatory requirements and balance sheet ratios.

The framework for liquidity management is drawn up by the Executive Board's ALCO and approved by the Board of Directors. The ALM-FM Department, which includes the Bank's treasury management team, is responsible for operational management of long-term funding and short-term liquidity.

Exposure to liquidity risk is calculated using a broad spectrum of indicators, including components of the liquidity reserve, market indicators, regulatory ratios, and simulations of funding needs based on several scenarios.

4. Operational risk

The Bank's operational-risk management concept is based on the Basel Committee's principles of best practice. It is designed to mitigate operational risk factors by identifying areas for improvement and strengthening the Bank's operational and management control systems.

Operational risk factors are grouped into categories; each factor represents a potential threat to the Bank's operations. The factors are the following:

- Erroneous or malicious actions taken by employees, suppliers, bank counterparties, customers or other parties external to the Bank
- Inadequacies of information systems, infrastructure and/or the Bank's organization
- External factors such as the risks of natural disasters, pandemics and social unrest.

Reviews are carried out periodically to anticipate the main operational risks. These are supplemented by ad-hoc reviews, for instance if a potential new threat emerges or a major risk materializes at another bank. These reviews are carried out by management and business-line experts with the support of the Operational Risk Unit within the Risk Management Department. The reviews aim to identify possible improvements to the Bank's operational and management control systems.

In addition, the Bank systematically collects data on the main operational risk incidents that occur, and carries out an exhaustive analysis in each case.

If an important operational-risk event occurs, the Bank bases its response on clearly defined incident management measures, such as the Business Continuity Plan (BCP).

5. Compliance

The activities and operations of a full-service bank must meet a large number of legal and regulatory requirements. Various entities within the Bank, depending on the scope of their authority, are responsible for incorporating these requirements into the Bank's directives and other internal procedures and for independently overseeing their application. Regulations concerning dealings with clients, the fight against money laundering and the financing of terrorism, financial market supervision, and institutional transparency all fall under the remit of the Compliance Department, which reports directly to the CFO. Other entities with a compliance role include the Risk Management, Financial Accounting, IT Systems Management, Human Resources and Security departments.

The role of Compliance is to ensure that the Bank operates in accordance with the requirements that fall within Compliance's purview. Compliance aims to limit the risk that strategic choices, business decisions, procedures and day-to-day operations will be non-compliant.

Accordingly, Compliance has four key objectives:

- **To monitor regulations on two levels:** Compliance coordinates the monitoring of all changes in banking and financial legislation. It also detects, analyzes and informs the governing bodies of any changes in requirements

concerning dealings with clients, the fight against money laundering and the financing of terrorism, financial market supervision, and institutional transparency

- **To adapt internal regulations:** Compliance adapts internal regulations within its purview (directives and other procedures) to new requirements
- **To provide support for the Bank's business lines:** drawing on its extensive knowledge of the Bank's different businesses, Compliance contributes to preventing situations of non-compliance
- **To conduct level-two oversight and reporting:** Compliance ensures that the rules within its purview are being applied. It reports its findings to the Bank's governing bodies and auditors; this report contains a thorough assessment of the risk factors that may lead to non-compliance and also identifies potential improvements.

Internal control system (ICS)

The Bank's internal control system (ICS) was developed in accordance with the recommendations of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the Basel Committee, and pursuant to FINMA circular 08/24 and Swiss auditing standard No. 890. The purpose of the ICS is to ensure that the Bank's activities are in line with its overall objectives. More specifically, the ICS enables the Bank to:

- Achieve its performance objectives both in terms of profit and controlling profit fluctuations
- Provide reliable information both internally and externally
- Comply with legal, regulatory and self-regulatory requirements.

The ICS is an integrated bank-wide system. It covers all functions and all hierarchical levels. In addition to the Bank's front-line activities, the system also applies to business-support, steering and monitoring functions as well as to external service providers, particularly those falling under the scope of FINMA circular 08/7 on outsourcing.

BCV works to foster a culture of oversight among its staff so that each employee understands his or her role in the ICS. Oversight is thus part of employee performance assessment and skills development.

The Bank's ICS comprises three levels. The Executive Board is responsible for the first two levels, while the Board of Directors oversees the third level.

- Level one: operational oversight by employees and managerial oversight by their superiors
- Level two: controlling the appropriateness and effectiveness of level-one oversight by entities independent of the chain of command. This oversight is carried out by functional skills centers, including the Compliance, Risk Management, Financial Accounting, Business Controlling, IT Systems Management, Human Resources and Security departments
- Level three: a periodic review of levels 1 and 2 by the Internal Audit Department.

The Operational Risk Unit within the Risk Management Department reviews the appropriateness and effectiveness of the ICS annually; its findings are submitted to the Bank's governing bodies and the external auditor.





Corporate Governance

| | |
|--|----|
| General principles | 60 |
| 1. Group structure and shareholders | 61 |
| 2. Capital structure | 62 |
| 3. Board of Directors | 64 |
| 4. Executive Board | 75 |
| 5. Compensation, shareholdings and loans | 82 |
| 6. Shareholders' rights | 85 |
| 7. Takeovers and defense measures | 87 |
| 8. Auditors | 87 |
| 9. Disclosure policy | 88 |
| 10. Contacts | 89 |

General principles

BCV is aware of its responsibilities and meets corporate governance requirements. It strives to:

- Communicate transparently. The information provided in this chapter complies with the information-disclosure requirements contained in the Corporate Governance Directive issued by the SIX Swiss Exchange on 1 January 2016.¹
- Apply the principal standards of corporate governance. BCV follows the recommendations contained in the Swiss Code of Best Practice for Corporate Governance² whenever they are compatible with its status as a corporation organized under public law.
- Carry out regular reviews of its organization with regard to the Bank's present needs and future growth, and ensure that all members of management are involved in its operational procedures.
- Materially and continuously improve the information it publishes, in particular by means of its annual report and a separate report on corporate social responsibility, which is issued every two years.

This chapter explains how the Bank puts these principles into practice. Additional information can be found in the Articles of Incorporation and the Cantonal Act of 20 June 1995 Governing the Organization of Banque Cantonale Vaudoise ("LBCV"), both of which are available on the BCV website.³

¹) See the English translation of this text on the SIX website: https://www.six-exchange-regulation.com/dam/downloads/regulation/admission-manual/directives/06_16-DCG_en.pdf

²) An English translation of this text, by Prof. Peter Böckli, may be found at www.economiesuisse.ch

³) www.bcv.ch

As a public-sector entity within the meaning of Article 763, paragraph 2, of the Swiss Code of Obligations, BCV is not subject to the Ordinance against Excessive Compensation in Publicly Listed Companies (ORAb), which went into effect on 1 January 2014. Nevertheless, in the interest of good governance and given that BCV is publicly listed on the SIX Swiss Exchange, the Board of Directors decided to incorporate the principles of the ORAb into the Articles of Incorporation insofar as they were compatible with BCV's specific status and without amending the LBCV. These changes were approved at the Shareholders' Meeting held on 1 May 2014. Although the ORAb provisions on the election and term of office of members of the Board of Directors were not incorporated into the Articles of Incorporation, many others were adopted. These include the principles regarding the Independent Proxy (Article 18a of the Articles of Incorporation); electronic voting (Article 18a, paragraph 5, of the Articles of Incorporation); the maximum number of board positions outside BCV that may be held by members of the Board of Directors (Article 23 of the Articles of Incorporation) and the Executive Board (Article 29 of the Articles of Incorporation); the duties of the Compensation, Promotions and Appointments Committee (Article 30a of the Articles of Incorporation); the length of the employment contracts of the members of the Executive Board (Article 28, paragraph 2, of the Articles of Incorporation); the compensation structure (Article 30b of the Articles of Incorporation); the approval of compensation (Article 30c of the Articles of Incorporation); and unauthorized compensation (Article 30d of the Articles of Incorporation). In addition, as BCV is not subject to the ORAb, it is required to continue providing compensation reports in the form of a section of its Annual Report (Article 30e of the Articles of Incorporation).

1. Group structure and shareholders

1.1 Group structure

1.1.1 Group operational structure (at 31 December 2016)

Details of all BCV Group companies are shown in note 10.7 (Consolidated holdings) on page 125 of the consolidated financial statements. BCV is the only listed company included in the Group's scope of consolidation.

1.1.2 Listed companies included in the scope of consolidation

| Company name | Banque Cantonale Vaudoise |
|------------------------|---|
| Legal status | Corporation organized under public law, established on 19 December 1845 by Council Decree of the Vaud Cantonal Parliament (Grand Conseil vaudois) and governed by the Act of 20 June 1995, as amended on 25 June 2002, 30 January 2007 and 2 March 2010 |
| Registered office | Place Saint-François 14, 1003 Lausanne, Switzerland |
| Stock exchange listing | BCV shares are listed on the SIX Swiss Exchange |
| Market capitalization | At 31 December 2016, the value of BCV's listed shares with a par value of CHF 10 was CHF 5.6bn |
| Security number | 1.525.171 |
| ISIN code | CH0015251710 |

1.1.3 Unlisted companies included in the scope of consolidation (at 31 December 2016)

The parent company's Board of Directors and Executive Board also serve as the Board of Directors and Executive Board of the Group, which is not a holding company. Furthermore, relations between the Bank and its subsidiaries are governed by a Group directive.

At the operational level, each of the subsidiaries reports to a BCV division according to the type of business in which it engages.

In principle, each head of division is also a member and/or chair of the board of directors of each subsidiary attached to his or her division.

The share capital of BCV's subsidiaries and the holdings of the parent company are shown in note 10.7 on page 125 of the consolidated financial statements.

1.2 Major shareholders

At 1 January 2017, the Canton of Vaud held 66.95% of the Bank's share capital. No other shareholder is known to hold an interest of 5% or more in either the voting rights or capital. BCV Group is currently unaware of any shareholders' pacts. Registered shareholders other than the Canton of Vaud represented 18.47% of the Group's capital at 31 December 2016.

1.3 Cross-shareholdings

There are no cross-shareholdings between the Bank and any other company which exceed the limit of 5% of either the voting rights or capital.

2. Capital structure

| | |
|-----------------------------------|----------------|
| Share capital (registered shares) | CHF 86,061,900 |
| Authorized capital | None |
| Conditional capital | None |
| Employee stock options | None |

2.1 Share capital

Information on the Bank's share capital and changes in 2014, 2015 and 2016 may be found in notes 3 and 5.12 to the parent company financial statements (pages 161 and 169). Additional information on the Group's capital is shown on page 107 of the consolidated financial statements.

At 31 December 2016, the Bank's share capital stood at CHF 86,061,900 and consisted of 8,606,190 registered shares with a par value of CHF 10.

2.2 Authorized and conditional capital

There was no authorized or conditional capital at 31 December 2016.

2.3 Capital structure at the end of the 2014, 2015 and 2016 financial years

There were no changes in the capital structure over the past three financial years.

Number of shares

| Share capital | 31/12/2014 | 31/12/2015 | 31/12/2016 |
|---|------------|------------|------------|
| Share capital (fully paid-in registered shares) | 8,606,190 | 8,606,190 | 8,606,190 |

Equity – Group

CHF millions

| Equity | 31/12/2014 | 31/12/2015 | 31/12/2016 |
|--|--------------|--------------|--------------|
| Share capital (fully paid-in) | 86 | 86 | 86 |
| Capital reserves and retained earnings | 2,551 | 2,607 | 2,633 |
| Reserves for general banking risks | 704 | 704 | 701 |
| Minority interests in shareholders' equity | 0 | 0 | 0 |
| Total | 3,341 | 3,397 | 3,420 |

2.4 Shares and participation certificates

Registered shares at 31 December 2016

| | |
|--------------------------------------|----------------------------|
| Number of shares | 8,606,190 |
| Proposed ordinary dividend | CHF 23 |
| Distribution out of paid-in reserves | CHF 10 |
| Par value | CHF 10 |
| Stock exchange listing | SIX Swiss Exchange |
| Voting rights | One voting right per share |

2.5 Dividend-right certificates

BCV has not issued any dividend-right certificates.

2.6 Restrictions on transfers and registration of nominees

The terms governing transfers of registered shares are set out in Article 13 of BCV's Articles of Incorporation.

2.6.1 Restrictions on transfers

Excerpt from the Articles of Incorporation:

Article 13 – Transfers of registered shares

The transfer of any registered share and its entry in the share register shall be subject to approval by the Board of Directors. (...) If the Board of Directors does not reject the request within twenty days, the acquirer shall be recognized as a shareholder with voting rights.

The Board of Directors may refuse to register an acquirer as a shareholder with voting rights:

- a) in respect of a shareholding exceeding 5% of the Bank's share capital held by a single shareholder or group of shareholders as defined by the Federal Act on Stock Exchanges and Securities Trading. (...) That limit shall not apply to the Canton of Vaud or any third party to which the Canton of Vaud sells part of its shareholding, or to the takeover of a company or part of a company;

- b) if a shareholder does not expressly state, when requested to do so, that he/she has acquired the shares in his/her own name and for his/her own account;

- c) if and so long as his/her recognition could prevent the Bank from furnishing proof of the shareholder base required under Swiss law.

End of excerpt from the Articles of Incorporation.

2.6.2 Exemptions granted during the financial year

No exemptions were granted during the financial year.

2.6.3 Registration of nominees

The Board of Directors may refuse the registration of an acquirer as a shareholder with voting rights unless he/she expressly states, when requested to do so, that he or she has purchased the shares in his/her name and for his/her own account.

2.6.4 Privileges under the articles and transfer restrictions

At any Shareholders' Meeting convened to vote on the removal of a clause relating to restrictions on the transfer of registered shares, such removal shall be decided by an absolute majority of votes attached to the shares represented, where each share shall entitle the holder to one vote (Article 11, paragraphs 3 and 4, of the LBCV), in compliance with the rules applicable to any resolution of the Shareholders' Meeting.

2.7 Convertible bonds and options

At 31 December 2016, there were no outstanding convertible bonds, warrants, structured products or OTC options involving the BCV share and issued by BCV.

3. Board of Directors

3.1 Members of the Board of Directors

At 31 December 2016, the Board of Directors comprised only non-executive members. The Chairman and members of the Board perform no other functions within BCV Group, and have not done so during the past three years. They maintain normal business relations with BCV and Group companies.

In accordance with Article 12, paragraph 2bis, of the LBCV and Article 21, paragraph 3, of the Bank's Articles of Incorporation, the Vaud Cantonal Government (VCG) assigns a written mission to the members that it appoints to the Board of Directors. The VCG appoints four of the seven members of the Board; its current appointees are Olivier Steimer, Peter Ochsner, Luc Recordon and Paul-André Sanglard. The purpose of this "mission letter" is to describe the general framework of the mission entrusted to these members as VCG appointees to the Board and to define the full extent of their relationship with the Canton of Vaud in this regard. It addresses, in particular, the issues of loyally safeguarding the interests of both BCV and the Canton, complying with BCV's legal mandate, and exercising the VCG's power to appoint certain members of the Bank's governing bodies. The letter sets out the various factors that must be considered with respect to the governing bodies' organization, operation and composition, as well as BCV's mission and strategy. Board members are called upon to ensure the implementation of a strategy that will allow the Bank to carry out its mandate under the best possible conditions, while generating a sufficient return to guarantee its financial soundness over the long term, and contribute to defining objectives that take into account both its mission and its profitability (see also Article 24, paragraph 2, of the Bank's Articles of Incorporation). It also states what the VCG expects in terms of communication with Vaud Canton, BCV's shareholders, the financial community and the public, bearing in mind the information-exchange agreement pursuant to the above Act and the Bank's Articles of Incorporation (see in particular Article 24, paragraph 2). The Audit and Risk Committee includes two Board members appointed by the VCG (Mr. Ochsner, Committee Chairman, and Mr. Sanglard) – who therefore hold such mission letters – and one elected by shareholders (Reto Donatsch). The Board members are assigned to the various committees on the

basis of their personal and professional abilities and their preferred fields, the aim being to protect the interests of the Bank, its shareholders and all of its partners.

| Name, year of birth and nationality | Education | Career experience |
|--|--|---|
| Olivier Steimer, 1955, Swiss citizen | Law degree from Lausanne University | Chairman of the Board of Directors since 30 October 2002. After completing his university studies and a number of banking and finance internships, Mr. Steimer joined Credit Suisse where, from 1983 onwards, he was appointed to progressively increasing levels of responsibility as Head of the Nyon branch office and then Head of Investment Advisory Services in Lausanne. He held various positions in Los Angeles, New York, and Zurich, thereby gaining experience in the credit, wealth management, and domestic and international banking businesses. In 1995, Mr. Steimer was given overall responsibility for Credit Suisse's Geneva region and was appointed member of the Executive Board of Credit Suisse Private Banking at its Zurich headquarters in 1997. In 2001, he was named CEO of the Private Banking International Division and joined the Executive Board of Credit Suisse Financial Services. The following year, he was appointed member of the Credit Suisse Group Executive Board. |
| Stephan A. J. Bachmann, 1946, Swiss citizen | Certified accountant | Mr. Bachmann joined the Board of Directors on 1 January 2008 and has chaired the Audit and Risk Committee since that date. He has also been Vice Chairman of the Board of Directors since 5 May 2011. After his initial banking training and periods in French-speaking Switzerland, England and Italy, he continued his career with PricewaterhouseCoopers Ltd and its predecessor firms. In 1969, he joined the Schweizerische Treuhandgesellschaft (STG) in Basel. This position led him to New York in 1975 to work for Coopers & Lybrand SA before returning to the Lausanne and Geneva offices. He was the head of Audit and Advisory in Switzerland from 1991 to 2006, first as a member of the Management Board of STG Coopers & Lybrand SA and then, beginning in 1998, as a member of the Board of Directors of PricewaterhouseCoopers Ltd. As a certified public accountant and former licensed bank auditor, Mr. Bachmann has extensive experience in auditing both financial and manufacturing companies. As previously announced, Mr. Bachmann stepped down from the Board of Directors at the Annual General Meeting on 21 April 2016. |
| Paul-André Sanglard, 1950, Swiss citizen | PhD in economics with a specialization in political economy from the University of Geneva | Mr. Sanglard joined the Board of Directors on 30 October 2002 and was appointed Vice Chairman of the Board on 21 April 2016. After working as an assistant in the Department of Political Economy at the University of Geneva, Mr. Sanglard was employed as an economist in the Swiss Federal Office of External Economic Affairs. From 1978 to 1979, he was a Research Fellow at Stanford University and the Massachusetts Institute of Technology. In 1979, he was appointed Head of Jura Canton's public revenue office. He became a lecturer in public finance at the University of Geneva in 1982, and between 1984 and 1989 he was a member of the World Economic Forum Executive Committee. Mr. Sanglard has been a freelance economist since 1989. |
| Jack G. N. Clemons, 1966, Dual Swiss and British citizen | Master's degree from Cambridge University and MBA from INSEAD, France Fellow of the Institute of Chartered Accountants in England & Wales | Mr. Clemons was elected by shareholders at the Annual Shareholders' Meeting held on 21 April 2016 and joined the Board of Directors on that date. He started his career in auditing and subsequently became a partner at Deloitte. He then served as Chief Operating and Financial Officer for a pan-European internet group. In 2006, Mr. Clemons joined Lausanne-based Bata, a leading global manufacturer and retailer of footwear, as Chief Financial Officer; he was later appointed Chief Executive Officer, a position he held until 2015. |

| | | |
|---|--|--|
| <p>Ingrid Deltenre, 1960, Dual Swiss and Dutch citizen</p> | <p>Degree in humanities from the University of Zurich</p> | <p>Ingrid Deltenre was elected at the Annual Shareholders' Meeting on 1 May 2014 and joined the Board on that date. After graduating from the University of Zurich with a humanities degree, Ms. Deltenre held various executive positions in publishing before becoming CEO of Publisuisse in 2000. She was appointed to head up Schweizer Fernsehen (SF), the leading public TV broadcaster in German-speaking Switzerland, in 2004, and held this position for six years. In 2010, Ms. Deltenre became Director General of the Geneva-based European Broadcasting Union (EBU), an organization with close to 400 employees.</p> |
| <p>Reto Donatsch, 1950, Swiss citizen</p> | <p>Degree in economics from the University of Geneva</p> | <p>After completing his studies and two banking internships, Reto Donatsch started his career in the wealth management business at Credit Suisse in 1978. He first worked at the head office in Zurich, where he stayed for ten years and reached the rank of Deputy Director. In 1989, he was promoted to Director and head of the Finance Department of Credit Suisse Geneva. He joined Bank Leu AG, Zurich, in 1993 and became CEO in 1996. He also served on the Executive Board of Credit Suisse Private Banking from 1997 to 2001, representing the Group's independent banks. From 2004 to 2007, he was Vice Chairman of the Board of Directors of Bank Leu AG. Since then, Mr. Donatsch has served on the boards of several companies and foundations. He was elected to the BCV Board of Directors at the Annual Shareholders' Meeting on 5 May 2011 and served as interim Chairman of the Audit and Risk Committee from 21 April 2016 to 30 June 2016.</p> |
| <p>Pierre Lamunière, 1950, Swiss citizen</p> | <p>Degree in economics and business administration from Lausanne University</p> <p>MBA (specializing in finance and marketing) from the Wharton Business School of the University of Pennsylvania</p> | <p>Mr. Lamunière was elected by shareholders at the Annual Shareholders' Meeting held on 24 April 2008 and joined the Board of Directors on that date. Since 1 September 2011, he has also been Chairman of the Compensation, Promotions and Appointments Committee. After starting his career in 1971 as an auditor at Coopers & Lybrand in Basel and Milan, he occupied various posts at Edipresse Group beginning in 1977. Mr. Lamunière served as Vice Chairman of the Edipresse Board of Directors from 1982–2002 and has been Chairman of the Board since that time. He was also a member of the Board of Swiss Post from 1997 to 2002. Mr. Lamunière stepped down from BCV's Board of Directors at the Annual General Meeting on 21 April 2016.</p> |
| <p>Peter Ochsner, 1956, Swiss citizen</p> | <p>Degree in business economics from ESCEA Management School, Zurich</p> <p>Swiss-Certified Accountant</p> | <p>Mr. Ochsner was appointed by the Vaud Cantonal Government and joined the Board on 1 July 2016. He also became Chairman of the Audit and Risk Committee on that date. Mr. Ochsner joined PricewaterhouseCoopers S.A. in 1982 after gaining experience in the Internal Audit & Organization Department of the Swiss National Bank. He served on PwC's management board, and headed the firm's auditing practice in Switzerland from 2006 to 2014. Mr. Ochsner is a Swiss-Certified Accountant and, while at PwC, was a lead bank auditor. He has extensive experience with clients in the banking and insurance industries, both in Switzerland and internationally. Mr. Ochsner retired from PwC in 2014.</p> |
| <p>Luc Recordon, 1955, Swiss citizen</p> | <p>Doctorate in law from Lausanne University and member of the Bar of Vaud Canton</p> <p>Master's degree in physics and a certificate in business management, both from the Swiss Federal Institute of Technology in Lausanne (EPFL)</p> | <p>Mr. Recordon was appointed by the Vaud Cantonal Government on 1 February 2002 and became Chairman of the Compensation, Promotions and Appointments Committee on 21 April 2016. He worked as a lawyer for the Federal Office for Spatial Planning from 1980 to 1981 and spent the next two years as a sales engineer with Granit SA in Lausanne before setting up his own legal and technical consultancy. Mr. Recordon was admitted to the Bar in 1989 after two years as a trainee lawyer and was subsequently made a partner in a Lausanne law firm.</p> |

3.2 Other activities and business relations

| | |
|----------------------------|--|
| Olivier Steimer | <ul style="list-style-type: none"> • Vice Chairman of the Bank Council of the Swiss National Bank, Bern and Zurich • Member of the Board of Directors of Allreal Holding AG, Baar • Member of the Board of Directors of Chubb Limited, Zurich • Chairman of the Foundation Board of the Swiss Finance Institute, Zurich • Member of the Committee of the Board of Directors of economiesuisse, Zurich • Board member of the following foundations: BCV Foundation, Lausanne; Avenir Suisse, Bern (Vice Chairman); Aide sportive suisse (Vice Chairman); and the Centre for Humanitarian Dialogue, Geneva |
| Paul-André Sanglard | <ul style="list-style-type: none"> • Chairman of the Board of Directors of Groupe Vaudoise Assurances, Lausanne • Chairman of the Board of Directors of Ophthalmology Network Organization, Onex • Vice Chairman of the Board of Directors of QNB Banque Privée (Suisse) SA, Geneva • Member of the following boards of directors: TSM Insurance Company, La Chaux-de-Fonds; Edmond de Rothschild Asset Management (Suisse) SA, Geneva; Société Générale Private Banking (Suisse) SA, Geneva; Pury Pictet Turrettini & Cie SA, Geneva; Baader Helvea SA, Zurich; and Millennium Banque Privée BCP (Suisse) SA, Geneva • Member of the following foundation boards: FITEC, Delémont; CODECO, Porrentruy; the Finance and Investment Commission of Swiss Solidarity, Geneva; ATD Fourth World, Treyvaux; and Observatoire de la Finance, Geneva |
| Jack G. N. Clemons | <ul style="list-style-type: none"> • Fellow of the Institute of Chartered Accountants in England and Wales |
| Ingrid Deltenre | <ul style="list-style-type: none"> • Director General of the European Broadcasting Union (EBU) • Chair of the Board of Eurovision Americas Inc (an EBU subsidiary) • Member of the University of Zurich's Executive MBA advisory board • Member of the Board of Directors of Givaudan SA, Vernier • Member of Aufsichtsrat Deutsche Post/DHL, Bonn |
| Reto Donatsch | <ul style="list-style-type: none"> • Member of the Board of Directors of Constellation Capital AG, Freienbach • Member of the Investment Committee of the Bern Canton Pension Fund, Bern • Board member of the Swiss Red Cross Humanitarian Foundation, Bern |
| Peter Ochsner | <ul style="list-style-type: none"> • Head of Finance and Accounting for the Festival of Zurich Foundation, Zurich |
| Luc Recordon | <ul style="list-style-type: none"> • Chairman of the Board of Directors of the Coopérative Tunnel-Riponne, Lausanne • Member of the following boards of directors: Clavel SA, Bern, and NECC SA, Lausanne • Consultant for the municipality of Jouxpens-Mézery, for CTR and for ASIGOS • Chairman of the following committees: Verein Energieallianz, Solothurn, and Association Pro AI Vaud, Lausanne • Chairman of the following foundation boards: Fondation du Théâtre Boulimie, Lausanne, and Fondation 50e of the Centre Social Protestant, Lausanne • Honorary Chairman of Institut Biosphère, Geneva • Chairman of the committee of the Association romande pour le développement et l'intégration des médecines complémentaires (RoMédCo), Lausanne • Chairman of the general meeting of AVDEMS, Pully • Chairman of the committee of the Association des Amis du Peintre André Gasser, Lausanne • Committee member of the following organizations: Lausanne section of the Swiss Tenants' Association (ASLOCA), Lausanne; the Vaud Section of the Swiss Transport and Environment Association (ATEVD), Lausanne; E-Changer, Partenaires dans l'échange et pour le changement, Fribourg; NiceFuture, Lausanne; Dachverband Komplementärmedizin (Dakomed), Bern; and Agile.ch, Bern • Member of the Foundation Board of Fondation intégration pour tous (IPT), Lausanne • Local councilor for Jouxpens-Mézery • Member of the Committee of the Board of Directors and interim Chairman of ASIGOS, Prilly • Member of the Advisory Board of the Swiss Centre of Expertise in Human Rights (SCHR), Bern • Member of the Vaud Green Party Committee • Independent counsel |

Olivier Steimer
Chairman of the Board of Directors



Paul-André Sanglard
Vice Chairman of the Board of Directors



Reto Donatsch
Member of the Board of Directors



Peter Ochsner
Member of the Board of Directors



Ingrid Deltenre
Member of the Board of Directors



Luc Recordon
Member of the Board of Directors



Jack G. N. Clemons
Member of the Board of Directors

3.3 Election and term of office

3.3.1 Principles

Pursuant to the Articles of Incorporation, the Board of Directors is composed of seven, nine or eleven members. The Chairman and half of the other members are appointed by the Vaud Cantonal Government (Article 12, paragraph 1, of the LBCV departs from the ORAb on this point). The remaining members are elected individually by shareholders at the Annual Shareholders' Meeting, with the Cantonal Government abstaining from voting.

Pursuant to Article 12, paragraph 5, of the LBCV and in derogation of the ORAb, the Chairman and other members of the Board of Directors are appointed for a period of four years. Their term of office may be renewed, but the total term may not exceed 16 years. They are required to step down at the end of the calendar year in which they reach the age of 70.

3.3.2 First election and term of office

The table below shows the terms of office of the current members of the Board.

3.4 Internal organization

3.4.1 Allocation of tasks

The Chairman of the Board of Directors is Olivier Steimer.

The Vice Chairman is Paul-André Sanglard, who was a Board Member before being appointed Vice Chairman to replace Stephan A. J. Bachmann. Mr. Bachmann stepped down at the close of the Annual Shareholders' Meeting on 21 April 2016 because he had reached the age limit for serving on the Board, as specified in BCV's Articles of Incorporation and the law governing BCV. The other members are Ingrid Deltenre, Jack G. N. Clemons (elected by shareholders at the Annual Meeting on 21 April 2016 to replace Pierre Lamunière with immediate effect), Reto Donatsch, Peter Ochsner (appointed by the Vaud Cantonal Government to replace Stephan A. J. Bachmann, effective 1 July 2016) and Luc Recordon.

Pursuant to the Articles of Incorporation and the by-laws, the Board of Directors may delegate some of its responsibilities to committees drawn from among its members, except as otherwise provided by law.

The Board of Directors has set up an Audit and Risk Committee and a Compensation, Promotions and Appointments Committee. In principle, neither committee has decision-making powers. Their responsibility is to prepare Board resolutions and submit opinions. The Board of Directors may create other special committees to deal with matters that are submitted to the Board.

3.4.2 Committees: composition and terms of reference

Audit and Risk Committee

In 2016, the Audit and Risk Committee was made up of

| Members of the Board of Directors | Year of birth | Date of first election | Latest possible expiration of term of office | Appointed by |
|-------------------------------------|---------------|------------------------|--|------------------------------------|
| Olivier Steimer (Chairman) | 1955 | 30 October 2002 | 2018 | Vaud Government ¹ |
| Paul-André Sanglard (Vice Chairman) | 1950 | 30 October 2002 | 2018 | Vaud Government ² |
| Jack G. N. Clemons | 1966 | 21 April 2016 | 2032 | Shareholders' Meeting |
| Ingrid Deltenre | 1960 | 1 May 2014 | 2030 | Shareholders' Meeting |
| Reto Donatsch | 1950 | 5 May 2011 | 2020 | Shareholders' Meeting ³ |
| Peter Oschner | 1956 | 1 July 2016 | 2026 | Vaud Government |
| Luc Recordon | 1955 | 1 February 2002 | 2018 | Vaud Government ² |

¹ Term of office renewed by the Vaud Cantonal Government, until end-2017

² Term of office renewed by the Vaud Cantonal Government, until the 2018 Annual Shareholders' Meeting

³ Term of office renewed for four years at the 2015 Annual Shareholders' Meeting

Stephan A. J. Bachmann (Chairman until 21 April 2016), Reto Donatsch and Paul-André Sanglard. Peter Ochsner replaced Mr. Bachmann as Chairman as of 1 July 2016. Reto Donatsch served as interim Chairman from 21 April 2016 to 30 June 2016.

The Audit and Risk Committee is tasked with ensuring the application and operation of risk control and management at BCV. It assists the Board of Directors in assessing the various types of risk faced by BCV, and in structuring and organizing the Bank's risk management and control processes. It draws up opinions and recommendations for the Board after conducting a critical examination on a regular or case-by-case basis of the Group's main risks, the risk management policy and strategy, reports on risks and compliance with regulatory capital requirements.

The Committee reviews the Chief Risk Officer's report every quarter, and the Bank's financial data and the reports from the Head of Internal Audit, the Chief Compliance Officer and the Head of the Legal Department every six months. It has no decision-making authority and submits its conclusions to the Board of Directors.

The Committee supervises the work of both the internal and external auditors. Together with the external auditors' representative, it examines the external auditors' recommendations concerning BCV's organization and risk-assessment policy, and gives its opinion on the qualifications of the internal auditors and the cooperation of Bank units in audit procedures. The Head of Internal Audit also briefs the Committee on matters pertaining to BCV's organization and operations, and provides a risk analysis. Furthermore, the Committee gives its own appraisal of the Internal Audit Department and reviews the status of litigation involving BCV.

The Committee meets for at least one full day every quarter to accomplish its duties, which are set out in detail in an Audit and Risk Committee Charter (available on BCV's website), and to review other matters related to its activities. An additional meeting is dedicated essentially to the closing of the annual accounts.

The Head of Internal Audit, representatives of the external auditor and the CFO attend all Committee meetings, with exceptions for certain specific subjects. Depending on the agenda, the meetings are also attended by other members

of the Executive Board, the Head of the Risk Management Department, the Chief Compliance Officer, the Head of Accounting and the Head of the Legal Department.

In addition to its risk-related role described above, the main task of the Audit and Risk Committee is to assist the Board of Directors in carrying out its supervisory duties and ensuring the integrity of the consolidated financial statements and financial reports. Furthermore, the Committee is responsible for ensuring the quality and independence of the work performed by both the internal and external auditors. It discusses the contents of the parent company's audit reports, together with those of the subsidiaries, as part of a consolidated review. It oversees implementation of the auditors' recommendations. The Committee agrees on the annual and six-year audit plans for the internal auditor and is informed of the external auditor's prudential and financial audit strategy.

Apart from its regular duties, the Audit and Risk Committee attended a one-day training seminar in 2016 that focused on a number of risk-related topics, compliance, and governance.

Once a year, the Audit and Risk Committee conducts a detailed evaluation of the internal (see also 3.6 below) and external auditors as well as a self-assessment.

Compensation, Promotions and Appointments Committee

In 2016, the Compensation, Promotions and Appointments Committee, which is expressly provided for in the Articles of Incorporation (Article 30a), consisted of Pierre Lamunière (Chairman until 21 April 2016), Ingrid Deltenre and Luc Recordon (who took over as Chairman on 21 April 2016). Jack G. N. Clemons replaced Mr. Lamunière on the Committee as of 21 April 2016. The Chairman of the Board and the CEO take part in an advisory capacity.

The Committee provides significant support to the Board of Directors, particularly relating to human resources strategy and employee transition management. It helps in defining profiles, and selecting and proposing candidates for senior management and board positions.

The Committee, which has no decision-making authority, thus defines the profile required for the Chairman and the other members of the Board of Directors, as well as for

the CEO and the other members of the Executive Board. It draws up and prioritizes proposals for the selection and hiring of the Bank's senior executives and examines the Board of Directors' compensation system. It also prepares and prioritizes recommendations for the Board of Directors and the Shareholders' Meeting on decisions concerning the compensation of the Chair of the Board of Directors (in his or her absence), the CEO, and the Executive Board members. It also makes recommendations to the Board of Directors on the compensation of the Head of Internal Audit, and on the Bank's overall compensation policy and level.

In addition, it assesses the performance of the CEO and reviews the CEO's assessment report on members of the Executive Board.

It makes recommendations on executive appointments and promotions.

Finally, the Committee has the additional tasks of handling matters related to corporate social responsibility and of preparing and prioritizing recommendations for the Board of Directors on decisions concerning rules of good governance, including assignments entrusted to external consultants by the governing bodies.

3.4.3 Operational procedures of the Board of Directors and its committees

In 2016, the Board of Directors held 11 ordinary plenary meetings. Each meeting generally lasted a half day, with the exception of three full-day meetings. The Board of Directors also went on two 2-day retreats, in part with the Executive Board. The retreats provide the Board of Directors with the opportunity to address strategic topics in greater depth, including the Bank's overall strategy and its strategies in the areas of human resources, finance, IT and risk management.

The Board committees meet whenever required by the business at hand. In 2016, the Audit and Risk Committee met six times and took part in a one-day training seminar; the Compensation, Promotions and Appointments Committee met seven times and held several meetings related to future changes in Board membership.

Board members receive the minutes and all documents provided to the committees. The chair of each committee informs members at Board meetings of important issues

addressed by the committees, and answers any questions raised by them. See section 3.4.2 above for information on the committees' operational procedures.

The CEO attends all regularly scheduled Board meetings and retreats. Executive Board members attend whenever issues relating to their divisions are on the agenda.

Where necessary, outside specialists are invited to attend Board or committee meetings to present a specific topic.

The Board of Directors has adopted an operational procedure for working with the Executive Board, with a subject-by-subject description and schedule of the tasks to be performed. This modus operandi, which is periodically reviewed, establishes the frequency with which matters are handled by the two Boards, including their committees, and in which form. The objective is good governance by ensuring that all pertinent issues are addressed at the right level, that the time available to the Boards and committees is allocated optimally and that their involvement is fully consistent with their responsibility (see also section 3.6). Since 2009, the Board of Directors has delegated more matters to the committees. In principle, decision-making authority nevertheless rests with the Board.

3.4.4 Performance appraisal of the Board of Directors

Pursuant to the new Article 30b, paragraph 2, of the Articles of Incorporation (adopted at the Shareholders' Meeting held on 1 May 2014), the Board of Directors sets itself annual objectives, taking into account the goals set forth in the Articles, as well as the Bank's strategy and risk policy. The Board carries out an analysis every six months to determine whether these objectives have been achieved, and also reviews and improves its procedures on a regular basis.

Furthermore, the Board meets once a year without the Chairman to evaluate his or her performance. In 2016, the Board decided, and the Chairman agreed, to cancel the latter's performance-based compensation with effect from the 2016 financial year, and to incorporate it into the fixed compensation.

3.5 Powers

The Board of Directors establishes the Bank's general policy.

It directs the Bank's affairs at the highest level and issues the necessary instructions. It also supervises the Bank's management and those entrusted with it. In addition, it verifies the accomplishment of BCV's corporate mandate, as defined in Article 4 of the LBCV.

The Board of Directors exercises the inalienable powers described in Article 24, paragraph 4, of the Articles of Incorporation and carries out all duties that have not been assigned to BCV's other governing bodies pursuant to the LBCV, the Articles of Incorporation or the by-laws.

It also has the following responsibilities:

The Board of Directors determines which companies belong to BCV Group, in accordance with the legal provisions applicable to the scope of consolidated supervision. Subject to the non-transferable and inalienable powers of the subsidiaries, it exercises the same powers relative to the Group, through the directives that BCV issues and the instructions that BCV gives its representatives within the Group.

It decides on the creation, acquisition, sale and liquidation of subsidiaries, branches and retail banking offices, and of representative offices abroad. It validates the Bank's investment and growth policy, and reviews it periodically. It ensures that systems for the preparation of financial statements and for financial planning are implemented and maintained, and that these systems meet regulatory requirements and those related to internal and external audits.

In accordance with FINMA circular 08/24 on the supervision and internal control of banks, the Board of Directors regulates, establishes, maintains, supervises and regularly validates the internal control system (ICS). The relevant internal framework directive has been implemented. The Board regularly discusses its assessment of the appropriateness and effectiveness of the ICS with the Executive Board.

In terms of appointments, the Board of Directors has a number of responsibilities that fall outside the powers defined in Article 24, paragraph 4, of the Articles of Incorporation. In agreement with the Vaud Cantonal Government, it determines the conditions governing the appointment of its chair. It appoints and removes the Head of Internal Audit along with all executives in that department with the rank of lead auditor or equivalent,

and appoints and removes Bank executives with signing authority. It proposes its own compensation, together with that of its Chairman and the Executive Board, to the Shareholders' Meeting (new Article 30c of the Articles of Incorporation). It sets the Bank's overall compensation level and the compensation of the Head of Internal Audit. The Board also validates the conditions applicable to the Executive Board. It determines the method of signing used by the Bank, i.e., the joint signature of two persons.

The Board of Directors determines the organization and defines terms of reference by means of by-laws, the organization chart for divisions and departments, other regulations, and tables of terms of reference. In particular, it draws up the quantified terms of reference assigned to the Executive Board. It approves the Bank's lending policy upon the recommendation of the Executive Board, and the technical standards and regulations governing lending authority upon the recommendation of the Executive Board's Credit Committee. It also decides on the granting of loans to members of the Board of Directors and Executive Board.

It reviews the independent auditor's annual reports, and each member certifies that he or she has read them, along with the activity reports submitted by the Internal Audit Department. It prepares the reports, accounts and other documents and proposals to be presented to the Shareholders' Meeting, and approves the strategic development and investment plans. Finally, it approves the budget and the objectives defined by the Executive Board.

The Board of Directors determines the Bank's financial strategy and risk-management policy and strategy, and reviews their appropriateness periodically. In this way, it sets out the overall framework for balance-sheet and risk management for the Executive Board. It monitors implementation of balance-sheet and risk-management policy, in particular by reviewing periodic risk-assessment reports prepared in accordance with its instructions, as well as those required by the regulatory authorities.

For all other matters, refer to the operational procedure set up by the Board of Directors and described in section 3.4.3.

The Executive Board is responsible for managing and directly monitoring the Bank's business. Its powers include drawing up the terms and procedures of operations listed

in Article 4 of the Articles of Incorporation, as defined in Article 4 of the LBCV. It has the power to institute legal proceedings and represent the Bank in a court of law; it keeps the Board of Directors informed of any such situation.

Furthermore, the Executive Board implements the decisions made by the Board of Directors. It ensures that the organization and internal audit procedure in place at BCV meet the requirements of FINMA circular 08/24 on the supervision and internal control of banks and the relevant framework directive issued in this regard by the Board of Directors; to this effect, the Executive Board issues the necessary directives and exercises appropriate oversight. It has adopted the ICS implementing directive.

The Executive Board draws up the Bank's financial strategy through the CFO, the risk-management policy and strategy through its Risk Management Committee, and the lending policy through its Credit Committee. It is responsible for preparing periodic risk-assessment reports in accordance with the instructions of the Board of Directors and prepares all documents that will be used in the decision-making and monitoring processes relative to operations and business dealings that involve special risks. It is responsible for overall risk management within the framework set by the Board of Directors, regularly verifies compliance with disclosure and reporting requirements defined by the regulatory authorities, and monitors compliance with risk exposure limits set by the Board of Directors.

The Executive Board publishes the financial statements after they are approved by the Board of Directors. It then prepares the cash-flow and shareholders' equity statements, which it publishes in accordance with current regulations. It draws up the budget of foreseeable revenues and expenses and submits it to the Board of Directors. It sets the rates and conditions applicable to the Bank's various types of operations. It also coordinates the activities and processes of the divisions and the strategic units.

It may issue or decide to participate in public or private bond offerings for the Bank's own account, buy, sell, equip or renovate buildings within the limits set by the Board of Directors and carry out other own-account operations within the criteria specified by the Board of Directors. It may approve the outsourcing of activities in compliance with FINMA directives.

Subject to the powers of the Board of Directors, it hires and dismisses employees, whose rights, obligations and responsibilities are defined in the employee handbook. It appoints and removes senior executives in accordance with the powers granted to it under the by-laws. It makes recommendations on the Bank's overall compensation level to the Board of Directors, through the Compensation, Promotions and Appointments Committee.

3.6 Monitoring the Executive Board

The Board of Directors supervises the Executive Board with the support of the Internal Audit Department, the external auditors, and the Board of Directors' committees in accordance with the operational procedures described in section 3.4.3, the objective of which is to ensure good governance.

The CEO attends all meetings of the Board of Directors, including retreats. The CFO is always present when there are items on the agenda concerning the financial statements, risks, asset and liability management (ALM), compliance and legal matters. In principle, Executive Board members attend whenever issues relating to their division are under discussion. Executive Board members in charge of front-office divisions present a business review to the Board of Directors twice a year. In addition to approving the half-year and full-year financial statements provided by the Financial Accounting Department and presented in detail to both the Audit and Risk Committee and the Board of Directors, the Executive Board sends (and in some cases presents) quarterly reports on the following issues to the Board of Directors: risks, ALM, equity, investor relations, human resources and investment policy. It also provides half-yearly reports on compliance and legal matters. The Board of Directors also reviews the parent company and consolidated financial statements for the first and third quarters.

The "Risk Management" section (pages 48–57) provides a summary of BCV's risk management procedures and an overview of its risk profile. Note 7 of the financial statements (pages 115–118) explains the principles applied by the Bank in assessing and managing risk. The Bank publishes its Basel III Pillar 3 Report, which is updated every six months and can be found in the Investor Relations section of the BCV website (www.bcv.ch).

A Management Information System (MIS) was approved by the Board of Directors to monitor and steer performance across the Bank, broken down by segment. Monthly reports are sent to each manager of a specific segment and presentations are made to the Executive Board each month. The MIS contains information not only on financial performance but also on business activity, margins, risk, operational indicators and human resources. In addition, it includes market watches. The CEO provides the Board of Directors with budget reports and regular updates on business trends based on the MIS reports, including a summary report every six months.

No member of the Board of Directors belongs to the Executive Board or exercises any management function whatsoever at the Bank or its subsidiaries, in compliance with the principle of independence stipulated in Article 8, paragraph 2, of the Swiss Federal Implementing Ordinance on Banks and Savings Institutions.

Internal Audit Department

The Internal Audit Department is a constituent entity of BCV pursuant to Article 14 of the Articles of Incorporation. It reports directly to the Board of Directors. It performs regular audits of all the Bank's operations and has an unlimited right to access information for this purpose. Its organization, sphere of operations, procedures and cooperation with the external auditors are defined in its regulations. The Department is independent of the Executive Board. Its responsibilities extend to all entities directly or indirectly controlled by the Bank in the areas of banking, finance and IT.

The Head of the Internal Audit Department draws up a six-year plan, which is reviewed annually and coordinated – insofar as regulatory constraints allow – with the external auditor. It is discussed with the executive boards of the parent company and BCV Group companies, approved by the Audit and Risk Committee and submitted for information purposes to the Board of Directors. The one-year plan results from this medium-term planning process. It may be changed during the year by the Head of the Internal Audit Department, subject to approval by the Audit and Risk Committee.

On the basis of the one-year plan, the Internal Audit Department enjoys complete freedom in preparing and

executing its tasks and presenting its conclusions. After completing its work, the Department submits detailed audit reports to the Executive Board, the Audit and Risk Committee and the Board of Directors, and provides copies to the external auditor, with which it shares all of its conclusions. It also draws up half-yearly activity reports, which include an overview of all ongoing auditing activities within BCV Group. The report is intended for the Audit and Risk Committee and is also discussed at meetings of the Executive Board and the Board of Directors.

Supervision and regular evaluations of the Internal Audit Department are delegated to the Audit and Risk Committee. Every year the Committee assesses the Department's cooperation with the external auditor, decides whether the Department is efficient and has the necessary resources and appropriate skills, and ensures that it performs its activities independently and objectively. The Audit and Risk Committee also has an objective external audit carried out at least once every five years, in accordance with international standards. This audit looks at all of the Internal Audit Department's systems and activities; the most recent one was conducted in 2016 and found that the Bank is in compliance with the standards issued by the Institute of Internal Auditors (IIA) and with the requirements of FINMA circular 2017/01.

The Head of the Internal Audit Department attends all meetings of the Audit and Risk Committee, as well as meetings of the Executive Board and Board of Directors when required.

4. Executive Board

4.1 Members of the Executive Board

Information about members of the Executive Board can be found on the following pages (NB: pursuant to Article 27 of the Articles of Incorporation, only the CEO is appointed by the Vaud Cantonal Government, while the other members are appointed by the Board of Directors).

| Name, year of birth and nationality | Position and start date | Education | Career experience |
|---|--|--|--|
| Pascal Kiener, 1962, Swiss citizen | CEO since 1 May 2008 and CFO from 1 June 2003 until 31 December 2008 | MSc in mechanical engineering from the Swiss Federal Institute of Technology in Lausanne (EPFL) in 1985. MBA from INSEAD in Fontainebleau in 1992. | Between 1985 and 1991, Mr. Kiener worked as an engineer for Fides Informatics in Zurich and Hewlett Packard in Geneva. In 1993, he joined the consulting firm McKinsey & Company. In 2000, he was made partner and a member of the Management Committee of McKinsey Switzerland. He acquired experience in financial services, and in banking in particular, during these years as an advisor for leading financial institutions in Switzerland and other European countries. He managed large projects involving strategy, risk management, controlling, and business process re-engineering. Mr. Kiener joined BCV as CFO on 1 June 2003 and was appointed CEO on 1 May 2008. |
| Aimé Achard, 1954, Dual Swiss and French citizen | Member of the Executive Board with responsibility for the Business Support Division from 1 April 2006 until his retirement on 31 December 2016 | Degree in computer science from the Institut d'Informatique d'Entreprises (IIE), Paris, in 1978. | In 1979, Mr. Achard joined BNP Paribas Group and worked in London, Oslo, Basel, Paris, and Geneva, where he occupied key posts in the management, design and operation of IT systems and back offices. Before joining BCV on 1 April 2006, he was responsible for the operational integration of acquisitions in the private banking business of BNP Paribas Group. Aimé Achard became a Swiss citizen in September 2011. |
| Stefan Bichsel, 1955, Swiss citizen | Member of the Executive Board with responsibility for the Asset Management & Trading Division since 1 May 2009 | Admitted to the Bar of Bern Canton in 1982. Master of Laws (LL.M) from Georgetown University in Washington DC in 1986. Admitted to the bars of New York and Connecticut in 1987. Advanced Management Program at the Wharton Business School, Philadelphia, in 1994. | Following law studies in Lausanne and Bern, Mr. Bichsel started his career at UBS. He was admitted to the bars of New York and Connecticut, before working for Pictet & Cie in Geneva. In 1994, he was appointed as the first CEO of Swissca Holding AG (now Swissscantto). From 1998 to 2001, he served as Chairman of the Board of the Swiss Funds Association (SFA). In 2002, Mr. Bichsel was named to the Management Board of Robeco Group (Rotterdam), where he was put in charge of the company's operations outside the Netherlands. From 2003 to 2005, he was Chairman of the Board of the European Fund and Asset Management Association (EFAMA) in Brussels. He joined Lombard Odier Darier Hentsch Group (LODH) in 2006 as a partner in the holding group and member of Group Management. He joined BCV as a Member of the Executive Board with responsibility for the Asset Management & Trading Division on 1 May 2009. |
| Gérard Haerberli, 1961, Swiss citizen | Member of the Executive Board with responsibility for the Private Banking Division since 1 July 2009 | Degree in economics (with a specialization in business administration) from the Business and Economics Faculty of Lausanne University in 1983. Certificates from the International Bankers School in New York, Harvard Business School in Boston and IMD in Lausanne. | Mr. Haerberli joined Credit Suisse in 1985, where he spent his career until 30 June 2009. From 1987, he held responsibilities in private banking in Yverdon-les-Bains and then worked in Zurich before being transferred to the United States, where he worked in New York and Miami. In 1994 he was transferred to Lausanne, where he took over responsibility for an international desk for Credit Suisse Private Banking. In 1998 he was put in charge of the Vaud region, and became head of Private Banking for all of French-speaking Switzerland in 2000. His responsibilities were extended in 2006 to include all of Credit Suisse's business lines in French-speaking Switzerland. He joined BCV's Executive Board with responsibility for the Private Banking Division on 1 July 2009. |

| | | | |
|--|--|--|---|
| Christian Meixenberger, 1960, Swiss citizen | Member of the Executive Board with responsibility for the Business Support Division since 1 January 2017 | Degree in electronic engineering from the University of Neuchâtel in 1987. MBA from the University of Lausanne in 1993. | From 1987 to 1993, Mr. Meixenberger worked as a software engineer at the Swiss Center for Electronics and Microtechnology (CSEM) in Neuchâtel before joining Credit Suisse in Geneva, where he was in charge of business processes and IT. In 1997, he became head of IT at Banque Cantonale de Fribourg. He was then appointed to that bank's Executive Board as head of the Services Division in 2000. He took up his position as head of BCV's Business Support Division on 1 January 2017. |
| Thomas W. Paulsen, 1965, Swiss citizen | CFO, member of the Executive Board with responsibility for the Finance & Risks Division since 1 January 2009 | Degree in economics from the Business and Economics Faculty of Lausanne University in 1988. MSc in economics from the London School of Economics (LSE) in 1989. PhD in economics from Lausanne University in 1992. | Mr. Paulsen started his career in energy trading at EGL. In 1995, he joined the consulting firm McKinsey & Company, where he was elected Principal Associate in 2000. During his time at McKinsey, he managed a large number of strategic projects for financial institutions and major energy companies in Switzerland and throughout Europe, focusing particularly on the risk management aspects. Mr. Paulsen joined BCV in July 2002 as Chief Risk Officer (CRO), and in this capacity created and led the Risk Management Department. He was named CFO and Head of the Finance & Risks Division on 1 January 2009. |
| Bertrand Sager, 1966, Swiss citizen | CCO, member of the Executive Board with responsibility for the Credit Management Division since 15 February 2010 | Master of Law from Lausanne University in 1990. Advanced Management Certificate from INSEAD in Fontainebleau in 2007. | Mr. Sager began his career at Credit Suisse in 1991, where he was involved in various lending activities. He joined BCV in 1998 and was appointed to lead BCV's Credit Recovery Management Department in 2003. In this position, he played a key role in strengthening the Bank's balance sheet by reducing the volume of impaired loans. In addition, as a member of the Executive Board's Credit Committee since 2008, he has acquired a thorough understanding of BCV's lending activities. Mr. Sager was named Chief Credit Officer and appointed to the Executive Board with responsibility for the Credit Management Division as of 15 February 2010. |
| Jean-François Schwarz, 1955, Swiss citizen | Member of the Executive Board with responsibility for the Corporate Banking Division since 1 March 2003 | Degree in economics (with a specialization in business administration) from the Business and Economics Faculty of Lausanne University in 1976. | Mr. Schwarz joined BCV's Commercial Division in 1976. He subsequently became assistant to the Head of Division and, later on, client advisor for business loans, trade finance and export credits. From 1986 onwards, he worked for Credit Suisse in Lausanne, New York, Zurich, Geneva and Sion. He was in charge of five regions for Credit Suisse as Head of Corporate Clients for French-speaking Switzerland before returning to BCV in 2003. He has been a member of the Executive Board with responsibility for the Corporate Banking Division since 1 March 2003. |
| José François Sierdo, 1963, Swiss citizen | Member of the Executive Board with responsibility for the Retail Banking Division since 3 March 2014 | Degree in economics and business administration from the Business and Economics Faculty of Lausanne University in 1992. MBA from IMD in Lausanne in 2001. | Mr. Sierdo began his banking career in 1993 in retail banking at UBS. He went on to do project finance in New York and lending in Zurich, before working at Lombard Odier & Cie from 1998 to 2002. He then returned to UBS, where he held key managerial positions in retail, private and corporate banking, including: Head of Private Banking for French-speaking Switzerland, CEO of UBS Luxembourg and Head of Corporate Clients for Switzerland. Before becoming a banker, he was a military pilot and a member of the Swiss Surveillance Wing. He joined BCV's Executive Board as Head of the Retail Banking Division on 3 March 2014. |

Pascal Kiener
CEO



Stefan Bichsel

Member of the Executive Board,
Head of Asset Management & Trading



Gérard Haerberli
Member of the Executive Board,
Head of Private Banking



Christian Meixenberger
Member of the Executive Board,
Head of Business Support



Thomas W. Paulsen

Member of the Executive Board,
CFO, Head of Finance & Risks



José F. Sierdo

Member of the Executive Board,
Head of Retail Banking



Bertrand Sager

Member of the Executive Board,
Head of Credit Management



Jean-François Schwarz

Member of the Executive Board,
Head of Corporate Banking

4.2 Other activities and business relations

Executive Board members also perform the following functions:

| | |
|-------------------------------|---|
| Pascal Kiener | <ul style="list-style-type: none"> • Member of the Board of Directors of the Swiss Bankers Association • Member of the Board of Directors and the Board Committee of the Union of Swiss Cantonal Banks • Member of the Board of Directors and the Steering Committee of the Vaud Chamber of Commerce and Industry • Chairman of the “Fonds de prévoyance en faveur du personnel de la BCV” • Member of the Board of the BCV Foundation • Member of the Board of the Geneva Financial Center Foundation • Member of the Strategic Advisory Board of the Swiss Federal Institute of Technology in Lausanne (EPFL) and member of the Foundation Board of EPFL Plus • Member of the Foundation Board of Foot Avenir, Paudex |
| Stefan Bichsel | <ul style="list-style-type: none"> • Chairman of the Board of Directors of GEP SA, Lausanne • Chairman of the Board of Directors of Gérifonds SA, Lausanne • Member of the Board of Directors of Banque Cantonale du Jura SA, Porrentruy • Member of SIX Securities Services Ltd – Strategic Advisory Board, Zurich • Member of the International Orientation Committee of EDHEC, Lille and Nice • Chairman of the Pro Aventico Association, Avenches |
| Gérard Haerberli | <ul style="list-style-type: none"> • Chairman of the Board of Directors of Piguët Galland & Cie SA • Member of the Board of the Institute for Studies in Finance and Banking (ISFB) |
| Christian Meixenberger | <ul style="list-style-type: none"> • Member of the Board of Directors of Aduno Holding SA • Member of the IT Commission of the Canton of Fribourg |
| Thomas W. Paulsen | <ul style="list-style-type: none"> • Member of the Board of Directors and the Audit and Risk Committee of Piguët Galland & Cie SA • Chairman of the Swiss Cantonal Bank Issuing Committee • Member of the Board of Directors of the Swiss Cantonal Banks’ Central Mortgage Bond Institution • Member of the Foundation Board of the “Caisse de pensions de la Banque Cantonale Vaudoise” • Member of the Board of the “Fonds de prévoyance en faveur du personnel de la BCV” • Member of the Foundation Board of the Swiss Experimental Research Institute for Cancer (ISREC) |
| Bertrand Sager | <ul style="list-style-type: none"> • Committee member of the Chambre Vaudoise Immobilière • Member of the Board of Directors of GEP SA • Member of the Board of the “Fondation de prévoyance en faveur de l’encadrement supérieur de la BCV” • Member of the Board of the “Fonds de prévoyance en faveur du personnel de la BCV” • Judge for property disputes at the Eastern Vaud District Court • Member of the Management Committee of the “Fonds cantonal de lutte contre la précarité” |
| Jean-François Schwarz | <ul style="list-style-type: none"> • Member of the Executive Committee of the Vaud Canton economic development agency (DEV) • Member of the Vaud Canton economic council • Member of the Foundation Board of the “Caisse de pensions de la Banque Cantonale Vaudoise” |
| José F. Sierdo | <ul style="list-style-type: none"> • Member of the Board of Directors of newhome.ch AG • Member of the Board of Directors of TWINT AG and TWINT Acquiring AG |

Internal organization of the Executive Board

The Executive Board may delegate its powers and duties as provided in the by-laws, subject to applicable laws, Swiss Bankers Association agreements, circulars issued by FINMA and other supervisory authorities, and directives of the Board of Directors.

In particular, the Board may appoint committees to prepare and implement its decisions, make decisions and oversee various matters.

The Executive Board has set up several committees, each of which consists of a chairman and members appointed for an indefinite period by the Board and drawn from its own ranks or among senior executives.

In accordance with BCV's by-laws, the CEO has a right of veto, which must be duly recorded when used. In such cases, the CEO must inform the Chairman of the Board of Directors.

4.3 Management contracts

The Bank has not entered into any management contracts.

Committee name, composition (at 1 March 2017)

Main roles

Risk Management Committee

Thomas W. Paulsen (Chairman)
Pascal Kiener
Stefan Bichsel
Jean-François Schwarz
Bertrand Sager
Maxime Mermier

- Submits risk management policy and strategy proposals to the Executive Board for approval by the Board of Directors
- Ensures risk management and control processes are implemented and updated for the entire Bank and for all risk categories
- Monitors the Bank's overall risk profile
- Steers all the Bank's risk management projects

Asset and Liability Management Committee (ALCO)

Pascal Kiener (Chairman)
Thomas W. Paulsen
Gérard Haerberli
Jean-François Schwarz
José François Sierdo
Christopher Cherdel
Michel Aubry
Fernando Martins da Silva

- Examines the exposure of the banking book to interest-rate risk and exchange-rate risk, as well as the Bank's exposure to liquidity risk
- Manages interest-rate-risk exposure on the balance sheet
- Manages the Bank's liquidity and funding

Credit Committee

Bertrand Sager (Chairman)
Pascal Kiener
Jean-François Schwarz
José François Sierdo
Christian Zünd
Laurent Michel

- Submits proposals concerning the Bank's lending policy, technical standards and regulations governing lending authority to the Executive Board for approval by the Board of Directors
- Makes decisions on the granting of lending authority
- Makes decisions regarding the granting and renewing of major lending facilities, within the limits of its powers
- Monitors the Bank's loan portfolio, particularly the sector breakdown
- Oversees credit-limit and overdraft management

Information Technology Committee

Christian Meixenberger (Chairman)
Pascal Kiener
Thomas W. Paulsen
José François Sierdo
Frédéric Le Hellard
Serge Messin

- Submits IT strategy proposals to the Executive Board for approval by the Board of Directors
- Submits proposals on the budgetary framework and the medium-term plan for high-priority projects
- Monitors the implementation of IT projects
- Obtains information on major IT incidents and corrective measures taken

5. Compensation, shareholdings and loans

5.1 Content and procedure for determining compensation levels and share-ownership programs

The Board of Directors approved new compensation regulations on 5 March 2010, which were amended on 7 November 2014 to take account of changes to BCV's Articles of Incorporation that were approved at the Shareholders' Meeting held on 1 May 2014. The regulations were again amended in 2016 following the decision to extend the minimum lock-up period for shares granted as annual performance-based compensation from three years to five years. These regulations govern the compensation-related roles and responsibilities of the Shareholders' Meeting, the Board of Directors, the Compensation, Promotions and Appointments Committee, the Executive Board and Human Resources. They also provide a detailed description of the various components of the compensation system and their related rules of application.

In order to define its compensation policy, the Bank participates in two salary surveys carried out by specialized institutes Hostettler & Co and Towers Watson every year. The main employers in the financial sector nationwide take part in these surveys, which provide BCV with an overview of market trends for virtually all positions. Furthermore, for the Executive Board, the Bank draws on comparisons with reference groups that include companies in banking and in other sectors that are relatively comparable (particularly in terms of market capitalization, revenues, earnings and/or staff numbers).

The current compensation system at BCV aims to promote employee skills and professionalism, as well as individual and team performance.

The components of the system are the base salary, annual performance-based compensation and employee share ownership. In addition, the Executive Board and senior management are eligible for a long-term performance-based salary. No stock-option plans are offered as part of compensation.

Detailed compensation figures can be found in the tables on page 175.

Board of Directors

The Board of Directors receives fixed compensation in the form of fees, including compensation for sitting on the various committees, and expenses.

In accordance with a resolution passed at the Annual Shareholders' Meeting, the Chairman of the Board's performance-based compensation was incorporated into the fixed compensation as of May 2016. The Chairman therefore now receives fixed annual compensation, most of which is paid in 12 monthly instalments. The remainder is paid in the form of BCV shares with a lock-up period of five to ten years paid in April or, if the Chairman steps down, with the last salary. Accordingly, the Chairman no longer receives separate performance-based compensation.

The compensation of all members of the Board, except the Chairman, is set by the full Board of Directors upon the recommendation of the Compensation, Promotions and Appointments Committee. The Chairman's compensation is set by the Board of Directors (excluding the Chairman), upon the recommendation of the Vice Chairman (see also section 3.4.4 on page 72).

Approval of the Board of Directors' compensation at the Shareholders' Meeting

Overall fixed compensation (comprising fixed compensation, compensation for sitting on the various committees, and expenses) between one Shareholders' Meeting and the next is subject to approval at the Shareholders' Meeting.

Executive Board

Compensation of the Executive Board includes all of the components below.

Base salary

The base salary of each employee is set according to the job description and in line with current market practice. Salary increases depend on the extent to which skills-development objectives have been achieved. On 1 January 2016, the Bank increased the base salary of all employees and decreased their performance-based compensation.

Annual performance-based compensation

All employees are eligible for annual performance-based compensation, provided their contracts have not been terminated. In accordance with the Bank's strategies and action plans, both qualitative and quantitative performance objectives

are defined for each of the divisions and tailored to each employee, at all levels of the organization. The final evaluation depends upon the degree to which the objectives set at the start of the period are met. On this basis, the employee's supervisor carries out an overall performance assessment in order to determine the annual performance-based compensation.

The overall level of annual performance-based compensation is based on financial performance and takes into account the level of risk of the Bank's operations. The result is then adjusted on the basis of key strategic development objectives, project execution, operational excellence levels and the level of customer satisfaction. Financial performance is calculated based on return on equity.

This approach enables BCV to take account of the main factors that generate shareholder value.

The breakdown in overall compensation also takes into consideration the results of the division and department in which an employee works.

30% of annual performance-based compensation for the Executive Board members and department heads must be taken in BCV shares with a lock-up period of five to ten years.

Other employees receiving annual performance-based compensation of CHF 21,000 or more may opt for full payment in cash, or 70% in cash and 30% in BCV shares with a lock-up period of three years. In the latter case, BCV increases the portion of shares by 30%.

For the 2016 financial year, these shares with a par value of CHF 10 were allocated at the closing price on 24 March 2017. The Executive Board will be allocated their shares at the closing price on 8 May 2017, subject to approval at the Shareholders' Meeting.

Employee share ownership

The Bank considers employee share ownership to be an essential element in staff loyalty and identification. An in-house subscription program entitles all BCV employees to subscribe to shares. The number of shares which may be purchased is determined by the level of responsibility inherent in an employee's position. The subscription price is set every year by the Board of Directors. With the aim of promoting loyalty, the shares are subject to a three-year lock-up period.

Members of the Board of Directors do not take part in the in-house share subscription program.

Long-term performance-based compensation

This form of compensation is intended for a limited number of managers, i.e., members of the Executive Board and department heads.

Its purpose is to further the Bank's long-term development by generating lasting shareholder value.

Objectives are set within the framework of three-year plans, with a new plan starting each year.

Long-term performance-based compensation is paid exclusively in BCV shares, in proportion to the extent to which objectives have been achieved.

The objectives for the long-term performance-based compensation plans have a financial, strategic and qualitative component.

The financial component of performance is measured in terms of economic profit. Economic profit is defined as profit generated after deducting the cost of equity, which reflects the Bank's risk level. The financial component is then adjusted to reflect the strategic and qualitative components. Here, a limited number of key objectives related to the Bank's business strategy, main projects, operational excellence initiatives and trends in customer satisfaction are taken into account.

The cost of the plan is spread over the entire period. The cost is recalculated in line with the objectives achieved and the number of remaining participants, and adjusted accordingly. The cost of the plans is spread over the relevant financial years.

At the end of each period, any difference between the number of shares actually distributed to participants and the number originally set aside for this purpose is adjusted according to the outcome of the vesting process, and added to or deducted from "Personnel costs."

All proceeds and dividends from shares acquired for the plans are paid to the Bank.

The 2014–2016 plan, which ended on 31 December 2016,

was based on the Bank's actual cumulative economic profit and the following strategic and qualitative objectives:

- Improved customer service
- Implementation of the Bank's multi-channel strategy
- Review of various internal directives
- Re-engineering of the lending process for small businesses
- Continued expansion of the asset-management business in German-speaking Switzerland
- Realignment of the offshore private banking business on a select group of countries, and concerted efforts to ensure that clients living abroad are tax-compliant
- IT system upgrades and initiatives to enhance system longevity.

The performance evaluation of Executive Board members and front-office department heads was also based on whether the financial objectives for their respective divisions were achieved.

For the plan ending on 31 December 2016, 6,728 shares were set aside at a preliminary cost of CHF 3,501,924 for the Bank. After assessing the degree to which the objectives were achieved, the total proportion of shares distributed versus the number set aside in the event the objectives were fully met was 102%. The quantitative objective for economic profit was surpassed, and the strategic and qualitative objectives were achieved.

In light of these results, 6,355 shares were distributed to participants in March 2017.

A new three-year plan began in 2017. Its objectives were set in accordance with the above principles.

Other compensation

Compensation also includes taxable incidental expenses.

In accordance with the employee handbook, a seniority bonus equivalent to a month's salary is payable to all employees who have completed 10, 20, 30 or 40 years' service at BCV. Employees may opt to take extra vacation, i.e., 20 days for full-time staff, instead of the bonus.

Approval of the Executive Board's compensation at the Shareholders' Meeting

The compensation of the members of the Executive Board is based on the degree to which they meet their unweighted qualitative and quantitative objectives. For members, these objectives are set and evaluated by the CEO; for the CEO, they are set and evaluated by the Board of Directors. The overall compensation for the Executive Board is set by the Board of Directors on the recommendation of the Compensation, Promotions and Appointments Committee. The fixed compensation (base salary, taxable entertainment expenses, seniority bonuses and employee share-ownership plan) from one Shareholders' Meeting to the next, as well as the annual performance-based compensation for the previous calendar year, are subject to approval at the Shareholders' Meeting. At each Meeting, shareholders also approve the maximum number of shares that may be made available as long-term performance-based compensation under the multi-year plan beginning in the current year.

In general, the base salary is higher than the annual performance-based compensation. For 2016, a ratio of

Overview of long-term performance-based compensation plans

| Starting year | Performance period | Year distributed | Number of shares set aside | Average cost per share | Initial cost of the plan for the Bank | Number of shares distributed | Market value (per share) | Market value of distributed shares |
|---------------|--------------------|------------------|----------------------------|------------------------|---------------------------------------|------------------------------|--------------------------|------------------------------------|
| 2011 | 2011 to 2013 | 2014 | 6,880 | 498.00 | 3,424,641 | 5,537 | 515.00 | 2,848,787 |
| 2012 | 2012 to 2014 | 2015 | 7,280 | 481.00 | 3,505,007 | 6,181 | 549.00 | 3,390,279 |
| 2013 | 2013 to 2015 | 2016 | 7,201 | 464.00 | 3,344,021 | 6,314 | 654.00 | 4,129,356 |
| 2014 | 2014 to 2016 | 2017 | 6,728 | 521.00 | 3,501,924 | 6,355 | 690.50 | 4,388,128 |

133.5% between the Executive Board members' base salary and their annual performance-based compensation was proposed at the Shareholders' Meeting.

Contracts

The CEO and other members of the Executive Board work under an employment contract with a 12-month notice period.

Application of the Ordinance against Excessive Compensation in Publicly Listed Companies

As stated above, because BCV is a public-sector entity within the meaning of Article 763, paragraph 2, of the Swiss Code of Obligations, it is not subject to the Ordinance against Excessive Compensation in Publicly Listed Companies (ORAb). Nevertheless, the Bank decided to incorporate the principles of the ORAb into the Articles of Incorporation insofar as they were compatible with the LBCV (see Articles 30a et seq. of the BCV Articles of Incorporation on compensation). Accordingly, at the 2017 Shareholders' Meeting, a vote will be taken on the fixed compensation of the Board of Directors and the Executive Board for the period between the 2017 and 2018 Meetings. There will also be votes on the 2016 annual performance-based compensation for the entire Executive Board and on the number of shares available as long-term performance-based compensation under the plan beginning in 2017. As BCV is not subject to the ORAb, it is required to continue providing compensation reports in the form of a section in its annual report (Article 30e of the Articles of Incorporation – see note 5.17 on page 173).

5.2 Transparency concerning compensation, shareholdings and loans by issuers with their registered office abroad

This point does not apply to BCV.

6. Shareholders' rights

Article 18 of the Articles of Incorporation – Voting Rights

Each share entitles the holder to one vote. No shareholder shall be entitled to vote at a Shareholders' Meeting either personally or by proxy, or to exercise associated rights, unless entered in the shareholder register. Shareholder status and the right to appoint a proxy shall be determined on the basis of the share register on the twentieth day prior to the Shareholders' Meeting.

6.1 Restrictions on voting rights and shareholder proxies

6.1.1 Restrictions on voting rights

Restrictions on voting rights are set out in Articles 12 and 13 of the Articles of Incorporation, the main provisions of which are described below.

Article 12 – Shareholder register

The Bank shall recognize as shareholders only those persons validly entered in the shareholder register. Only those whose names appear in the register may exercise the rights attached to BCV shares, subject to the restrictions provided herein.

Shareholders without the right to vote may not exercise such a right or any other associated right. Shareholders with the right to vote may exercise all rights attached to the shares.

Article 13 – Transfers of registered shares

The transfer of any registered share and its entry in the share register shall be subject to approval by the Board of Directors. (...) If the Board of Directors does not reject the request within twenty days, the acquirer shall be recognized as a shareholder with voting rights.

The Board of Directors may refuse to register an acquirer as a shareholder with voting rights:

- a) in respect of a shareholding exceeding 5% of the Bank's share capital held by a single shareholder or group of shareholders as defined by the Federal Act on Stock Exchanges and Securities Trading. (...) That limit shall not apply to the Canton of Vaud or any third party to which the Canton of Vaud sells part of its shareholding, or to the takeover of a company or part of a company;
- b) if a shareholder does not expressly state, when requested to do so, that he/she has acquired the shares in his/her own name and for his/her own account;
- c) if and so long as his/her recognition could prevent the Bank from furnishing proof of the shareholder base required under Swiss law.

Under Article 16 of the Articles of Incorporation (convening a Shareholders' Meeting – see section 6.4 below for the text of the article), one or more shareholders together

representing no less than one tenth of the share capital may also request the convening of a Shareholders' Meeting. Shareholders representing shares with an aggregate par value of thirty thousand Swiss francs may request that an item of business be entered on the agenda. The calling of a Shareholders' Meeting and the inclusion of an item of business on the agenda must be requested in writing, stating the business to be discussed and motions to be submitted.

Any individual motion requiring a vote shall be submitted to the Chairman of the Board of Directors in writing at least forty-five days prior to the Meeting.

At any Shareholders' Meeting convened to vote on the removal of a clause relating to restrictions on the transfer of registered shares, such removal shall be decided by an absolute majority of votes attached to the shares represented, where each share shall entitle the holder to one vote (Article 11, paragraphs 3 and 4, of the LBCV), in compliance with the rules applicable to any resolution of the Shareholders' Meeting.

6.1.2 Exemptions granted during the financial year

During the 2016 financial year, no departure from the above restrictions was made.

The rules governing attendance at Shareholders' Meetings are set forth in Articles 16 and 18 of the Articles of Incorporation, the main provisions of which are shown in sections 6.3, 6.4 and 6.5 below.

6.2 Quorum provisions

Provisions for quorums are set out in Article 19 of the Articles of Incorporation.

Article 19 – Quorum provisions; resolutions

The Shareholders' Meeting shall have the power to transact business irrespective of the number of shares represented.

Resolutions put to the vote shall be decided by an absolute majority of votes attached to the shares represented, and in the event of a tie, the Chairman shall have the casting vote. Shares held by the Canton do not vote on the election of members of the Board of Directors carried out pursuant to Article 15(b).

6.3 Convening shareholders' meetings

Article 16 – Meetings

Shareholders' Meetings shall be convened by the Board of Directors at least once a year.

The Annual Meeting shall take place within six months of the close of the financial year at the headquarters of the Bank or at any other place in Vaud Canton as may be determined by the Board of Directors.

Special Shareholders' Meetings may be convened as often as required. (...)

A Shareholders' Meeting may, if necessary, be convened by the Auditors.

6.4 Agenda

Article 16 (excerpt) – Meetings

One or more shareholders together representing no less than one tenth of the share capital may also request the convening of a Shareholders' Meeting. Shareholders representing shares with an aggregate par value of thirty thousand Swiss francs may request that an item of business be entered on the agenda. The calling of a Shareholders' Meeting and the inclusion of an item of business on the agenda must be requested in writing, stating the business to be discussed and motions to be submitted.

Any individual motion requiring a vote shall be submitted to the Chairman of the Board of Directors in writing at least forty-five days prior to the Meeting.

6.5 Shareholder registration

Article 18, paragraph 2, of the Articles of Incorporation stipulates that shareholder status and the right to appoint a proxy shall be determined on the basis of the shareholder register on the twentieth day prior to a Shareholders' Meeting.

Pursuant to paragraph 1 of the same Article, the right to vote at the Meeting shall be exercised by the shareholder registered in the share register or by his or her proxy, who may not necessarily be a shareholder. At the Meeting held on 21 April 2016, Christophe Wilhelm, a Lausanne-based attorney, was elected to be the Independent Proxy until the end of the Meeting to be held on 27 April 2017. Pursuant

7to the new Article 18a, paragraph 5, of the Articles of Incorporation, BCV will offer shareholders an electronic means of providing their instructions to the Independent Proxy for the Meeting.

7. Takeovers and defense measures

7.1 Obligation to make a bid

The Articles of Incorporation do not contain an opting-out or opting-up clause based on Article 125 of the Financial Market Infrastructure Act (FMIA).

7.2 Takeover clauses

There are no agreements or programs that would benefit members of the Board of Directors or the Executive Board or other BCV executives in the event of a takeover.

8. Auditors

8.1 Term of audit and length of service of lead auditor

PricewaterhouseCoopers SA, which has its registered office in Zurich, has been the Bank's external auditor within the meaning of the FINMA law and the Swiss Banking Act since 2009, carrying out audits as specified in the Swiss Code of Obligations. Alex Astolfi, a partner at PricewaterhouseCoopers SA, has been the lead auditor since April 2009.

Under the law governing BCV, the Bank is required to regularly rotate the individuals and firms serving as lead auditor and external auditor. The Board of Directors issued a request for proposals that lasted throughout the first half of 2015. After carefully reviewing all the proposals received, the Board chose KPMG SA in Geneva as its external auditor, within the meaning of the FINMA law and the Swiss Banking Act, for the 2016 financial year. At the Annual Shareholders' Meeting on 21 April 2016, BCV shareholders approved the Board's recommendation to appoint KPMG SA as the Bank's external auditor for 2016. The lead auditor is Oliver Gauderon, an audit expert licensed by the Federal Audit Oversight Authority and by FINMA.

8.2 Audit fees

Fees invoiced by KPMG SA for its audits of the parent

company and consolidated financial statements, its statutory audit pursuant to the Federal Act on Banks and Savings Institutions and the Federal Act on Stock Exchanges and Securities Trading (including audit-related work required by FINMA), certificates required under local law, and its audit of BCV as a custodian bank for investment funds amounted to CHF 1,536,840 for the 2016 financial year.

Fees invoiced by KPMG SA in Switzerland and abroad for financial and statutory audits of other BCV Group companies were CHF 440,760 for the 2016 financial year.

Total fees invoiced by KPMG SA for audit services supplied to all the companies which make up BCV Group therefore amounted to CHF 1,977,600 in the reporting year.

8.3 Additional fees

Fees invoiced by companies within the KPMG SA group for other auditing and assurance services totaled CHF 108,000 for the parent company.

Consulting fees, including but not limited to fees for IT-related projects and tax advice, amounted to CHF 10,692 for the parent company and CHF 37,542 for other BCV Group companies.

Total additional fees for the 2016 reporting period invoiced by KPMG SA in Switzerland and abroad for all BCV Group companies therefore amounted to CHF 156,234.

Full compliance with regulations concerning the independence of auditors has been verified by the Audit and Risk Committee.

8.4 Monitoring of external auditors

The Audit and Risk Committee scrutinizes the work of the external auditors. In particular, it monitors their independence and performance on behalf of the Board of Directors so that the Board can make an informed recommendation to the Shareholders' Meeting on whether to extend the appointment of the auditors. The external auditors submit a half-yearly activity report to the Audit and Risk Committee, which reviews the report at a meeting in the presence of representatives of the external auditors.

Furthermore, the Audit and Risk Committee conducts a detailed evaluation of the external auditors once a year.

The Audit and Risk Committee advises the Board of Directors on whether to approve the external auditors' fees on the basis of a retainer letter which is reviewed every year. It also discusses how the audit should be planned and approached, as well as risk-evaluation procedures and coordination between the Bank's internal and external auditors. Non-auditing assignments are submitted for prior approval to the Audit and Risk Committee, which, together with the external auditors, verifies compliance with the rules of independence.

The Chairman of the Board of Directors and the Chairman of the Audit and Risk Committee receive copies of all the reports, certifications and opinions issued by the external auditors in the course of their duties. Every year, the Audit and Risk Committee reviews the parent company's financial statements and regulatory reports and a summary of the reports submitted by the subsidiaries. The external auditors are regularly invited to attend Audit and Risk Committee meetings to discuss the results of their work, make recommendations on internal audit procedures and be informed of reports by other persons invited to the meetings. In 2016, representatives of the external auditors partially attended three meetings of the Board of Directors and all ordinary meetings of the Audit and Risk Committee.

The Chairman of the Board of Directors meets with the auditor in charge of the audit approximately once every quarter to see whether the work is proceeding as planned; the Chairman of the Audit and Risk Committee attends once a year. The Chairman of the Audit and Risk Committee also holds regular meetings with the auditor, at least once per quarter. A summary report is then submitted to all members of the Board of Directors, the Audit and Risk Committee and the Executive Board.

9. Disclosure policy

9.1 Transparency

Pursuant to paragraphs 8 and 9 of Article 24 of the Bank's Articles of Incorporation, the Board of Directors shall see that it is kept informed. It shall also see that shareholders are properly and fairly informed about the Bank's situation to the greatest extent possible, consistent with legitimate

compliance with business and banking confidentiality and securities laws. In particular, it shall reach an agreement governing disclosure of information to the Canton of Vaud.

9.2 Information-exchange agreement

BCV and the Canton of Vaud entered into an initial information-exchange agreement on 13 September 2004, which was followed by a second agreement on 7 October 2009. In 2015, the two parties negotiated a new information-exchange agreement, which was signed on 16 December 2015 and took effect on 1 January 2016.

This agreement commits the parties to increased transparency. In particular, it:

- Sets out the content and frequency of information exchanges and the procedures for providing information, together with the type and frequency of meetings between representatives of the Canton and BCV
- Defines the confidentiality rules governing these exchanges
- Designates the persons who are to provide and receive information on behalf of the Bank and the Canton
- Prohibits each party from exploiting for its own purposes the information received and provided
- Specifies the legal principles that shall apply, in particular the obligation to make public any information that may affect the price of BCV shares.

9.3 Other information

Regular publications intended for shareholders are the annual report (published in April) and the interim report at 30 June (published in August). Printed versions of both are available upon request from the following address: BCV, Publications, Post Office Box 300, 1001 Lausanne, Switzerland.

Information is provided to the public soon after the consolidated financial statements are approved by the Board of Directors, by means of a press release and press conference. In 2015, the Bank began publishing its financial

statements in accordance with the new Swiss accounting standards for banks. As a result of these new accounting rules, the Bank now reports its financial results on a half-yearly rather than a quarterly basis, which means that only results at 30 June and 31 December are released. The information-exchange agreement between the Bank and the Vaud Cantonal Government has been revised to take account of this change; the new version took effect on 1 January 2016.

BCV also issues special press releases on important developments and business trends at the Bank as often as necessary.

The annual report, interim report and press releases are all posted on the BCV website (www.bcv.ch) and are available via the free BCV Investor Relations iPad app. The annual report and interim report are published in French and English, while press releases are normally available in French, English and German.

Basel III Pillar 3 reports, which are published half-yearly, and other data of particular interest to investors may also be consulted in the Investor Relations section of the BCV website (www.bcv.ch) as well as via the free BCV Investor Relations iPad app.

BCV publishes notice of its Annual Shareholders' Meeting approximately sixty days in advance in the FOOSC (Feuille officielle suisse du commerce). The invitation and the agenda of the Meeting are also published in the FOOSC and several local daily newspapers. In addition, shareholders listed on the shareholder register at least twenty days before the Annual Meeting receive a personal letter of invitation.

10. Contacts

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2017 corporate calendar

| | |
|-----------|--|
| 27 April | Annual Shareholders' Meeting |
| 2 May | Ex-dividend date ¹ |
| 3 May | Dividend record date ¹ |
| 4 May | Dividend payment ¹ |
| 17 August | 2017 first-half results press conference |

¹⁾ Total distribution comprising an ordinary dividend of CHF 23 per share and CHF 10 per share drawn from paid-in reserves, subject to approval at the Annual Shareholders' Meeting.





The BCV Share

The rebound in the US economy pushed US stock markets to record highs. The Dow Jones ended 2016 at 19,762.60 points, up 13.4%; the S&P 500 gained 9.5% to 2,238.83 points; and the Nasdaq rose 5.9% to 4,863.62 points. In Europe however, a series of unwelcome surprises, like the Brexit vote, weighed on market sentiment. The main European indices nevertheless ended the year in positive territory – the DAX climbed 6.9%, the CAC40 added 4.9%, and the Euro Stoxx 50 edged up 0.7%. The only exception was the Swiss Market Index, which shed 6.8% to close at 8,219.87 points.

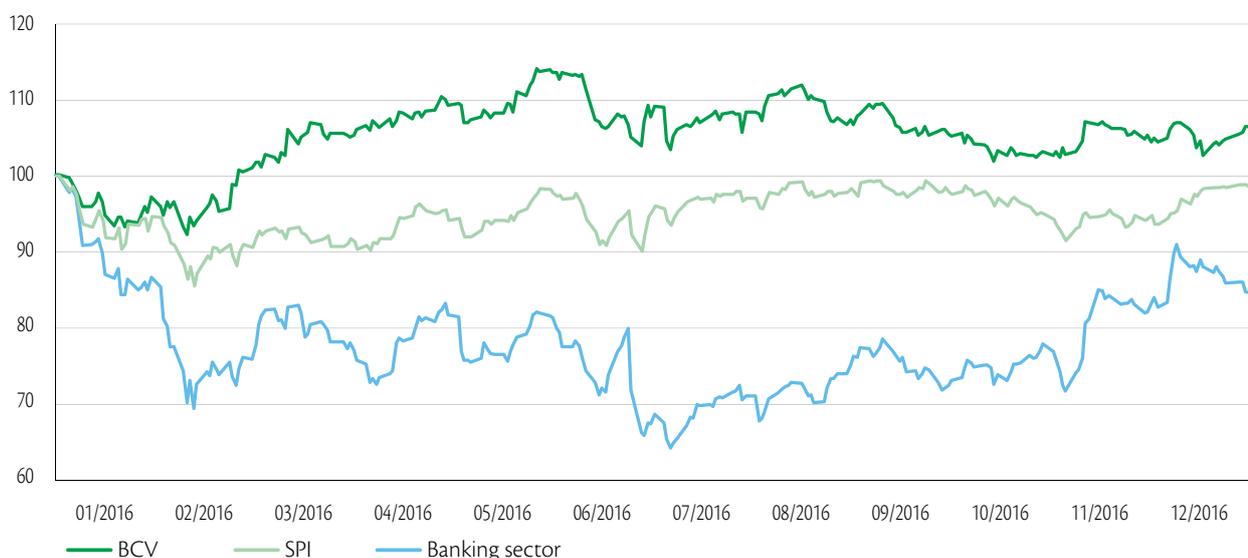
The BCV share started the year on an upbeat note, rising steadily throughout the first half, until the Brexit vote triggered a period of investor uncertainty. But like equity markets as a whole, the BCV share rose again at year-

end following the US presidential election. It ended the year 1.3% higher, at CHF 645.00. Adding in the dividends paid in 2016, the share delivered a total return of 6.5% – making it once again one of the best performing stocks in the Swiss banking industry.

The gloomy climate in Swiss equities also affected transaction volumes, which were considerably lower in 2016, including for the BCV share. With an average of CHF 3.3m changing hands every day, the BCV share nonetheless remained the fifth most liquid banking stock on the SIX Swiss Exchange.

Both of the rating agencies that follow BCV reaffirmed their sound ratings, attesting to the Bank's financial solidity. Standard & Poor's maintained its AA rating for the fifth year in a row, with a stable outlook, and Moody's reaffirmed its Aa2 rating in May and again in December, also with a stable outlook. BCV thus remains one of the best rated banks in the world without a formal government guarantee.

Total shareholder return¹⁾

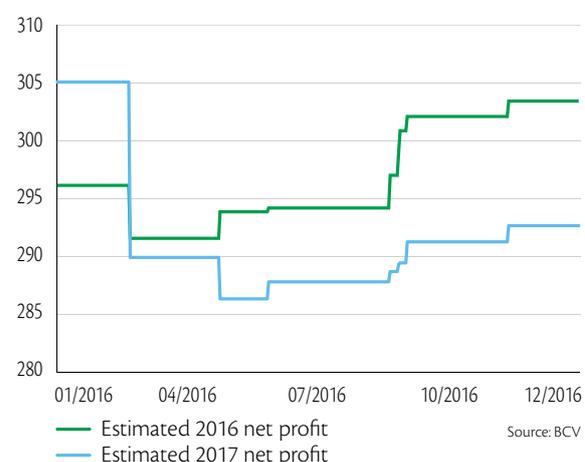


¹⁾ Stock market performance over the period plus dividends and capital distributions

Listed on: SIX Swiss Exchange
 Par value: CHF 10
 Swiss security number: 1 525 171
 ISIN code: CH0015251710
 Ticker symbols: Bloomberg: BCVN
 Telekurs: BCVN
 Reuters: BCVN.S

Analyst consensus

in CHF millions, at 31 December 2016



| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---------------|-------------|-------------|--------------|--------------------|
| Number of shares outstanding (in thousands) | 8 606 | 8 606 | 8 606 | 8 606 | 8 606 |
| Period-end share price (in CHF) | 484.75 | 486.50 | 539.00 | 636.50 | 645.00 |
| Share price high / low (unadjusted, in CHF) | | | | | |
| – high | 519.00 | 559.50 | 541.00 | 640.00 | 694.00 |
| – low | 441.50 | 445.00 | 472.75 | 510.50 | 582.00 |
| EPS ¹ (in CHF) | 36.1 | 32.5 | 34.4 | 39.1 | 36.0 |
| Adjusted EPS ² (in CHF) | 36.1 | 32.5 | 34.4 | 39.1 | 35.6 |
| Dividend per share (in CHF) | 22.0 | 22.0 | 22.0 | 23.0 | 23.0 ³⁾ |
| Dividend yield ⁴ (in %) | 4.5 | 4.5 | 4.1 | 3.6 | 3.6 |
| Total payout ⁵ (in CHF) | 32.0 | 32.0 | 32.0 | 33.0 | 33.0 ³⁾ |
| Total payout yield ⁴ (in %) | 6.6 | 6.6 | 5.9 | 5.2 | 5.1 |
| S&P long-term credit rating | AA / negative | AA / stable | AA / stable | AA / stable | AA / stable |
| S&P short-term credit rating | A-1+ | A-1+ | A-1+ | A-1+ | A-1+ |
| Moody's long-term credit rating | A1 / stable | A1 / stable | A1 / stable | Aa2 / stable | Aa2 / stable |
| Moody's short-term credit rating | Prime-1 | Prime-1 | Prime-1 | Prime-1 | Prime-1 |

¹⁾ Based on net profit after minority interests

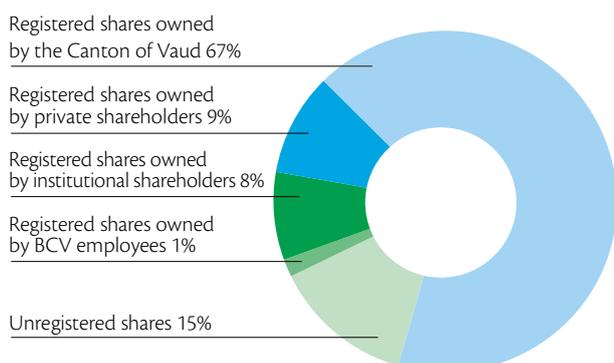
²⁾ Based on net profit after minority interests, excluding an allocation to the reserves for general banking risks

³⁾ Dividend to be proposed at the Shareholders' Meeting on 27 April 2017

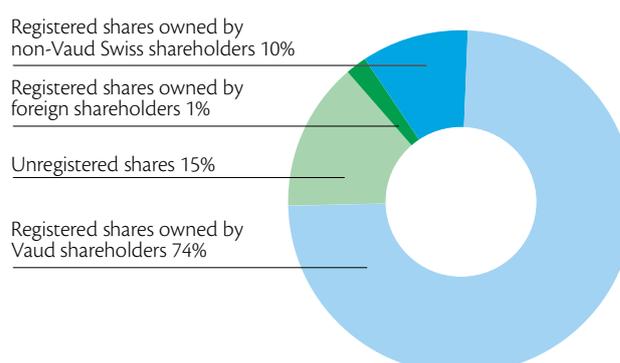
⁴⁾ Relative to the period-end share price

⁵⁾ Total amount distributed to shareholders in the form of an ordinary dividend together with a distribution drawn from paid-in reserves

Share ownership structure



Share ownership by geographical zone







Financial Statements

| | | | |
|---|-----|---|-----|
| Report on the Consolidated Financial Statements | 98 | 10.14 Issued structured products | 129 |
| Consolidated Financial Statements | 103 | 10.15 Bonds and mortgage-backed bonds | 130 |
| 1. Balance sheet | 103 | 10.16 Provisions | |
| 2. Income statement | 105 | Reserves for general banking risks | 131 |
| 3. Cash flow statement | 106 | 10.17 Stock options granted to members of the Board of Directors, Executive Board members and other employees | |
| 4. Statement of changes in equity | 107 | Employee-share-ownership plans | 132 |
| 5. Company name, operations and headcount | 108 | 10.18 Receivables and commitments with respect to related parties | 134 |
| 6. Accounting principles for the consolidated financial statements | 108 | 10.19 Treasury shares | 134 |
| 7. Risk-assessment and risk-management principles | 115 | 10.20 Maturity structure of financial instruments | 135 |
| 8. Use of hedge accounting | 119 | 10.21 Breakdown of assets and liabilities by Swiss and foreign domicile | 136 |
| 9. Significant events and events taking place after the closing date | 120 | 10.22 Breakdown of assets by country/country group based on domicile | 137 |
| 10. Notes to the consolidated balance sheet | 121 | 10.23 Breakdown of assets by solvency of the country group in which the risk is domiciled | 137 |
| 10.1 Repurchase and reverse repurchase agreements | 121 | 10.24 Breakdown of assets and liabilities by currency | 138 |
| 10.2 Risk mitigants for loans and off-balance-sheet transactions | | 11. Notes to off-balance-sheet transactions | 139 |
| Impaired loans | 121 | 11.1 Contingent liabilities | |
| 10.3 Trading portfolio assets and liabilities | | Contingent receivables | 139 |
| Other financial assets and liabilities at fair value | 122 | 11.2 Confirmed credits | 139 |
| 10.4 Derivative financial instruments | 123 | 11.3 Fiduciary transactions | 139 |
| 10.5 Financial investments | 124 | 11.4 Assets under management | 140 |
| 10.6 Non-consolidated holdings | 124 | 12. Notes to the consolidated income statement | 141 |
| 10.7 Companies in which the Group has a significant long-term direct or indirect holding | 125 | 12.1 Net interest income before loan impairment charges/reversals | 141 |
| 10.8 Tangible fixed assets | 126 | 12.2 Fees and commissions on securities and investment transactions | 141 |
| 10.9 Intangible assets | 126 | 12.3 Fees and commissions on other services | 141 |
| 10.10 Other assets and liabilities | 127 | 12.4 Net trading income and fair-value adjustments | 142 |
| 10.11 Assets pledged or assigned as collateral for own liabilities, and assets with reservation of title | 127 | 12.5 Personnel costs | 142 |
| 10.12 Commitments relating to own occupational pension funds | | 12.6 Other operating expenses | 142 |
| BCV shares held by own occupational pension funds | 128 | 12.7 Depreciation and amortization of fixed assets and impairment on equity investments | 143 |
| 10.13 Economic situation of own occupational pension funds | 128 | 12.8 Other provisions and losses | 143 |
| | | 12.9 Extraordinary income | 143 |

| | | | |
|---|-----|---|-----|
| 12.10 Taxes | 143 | Parent Company Financial Statements | 158 |
| 12.11 Breakdown of operating profit by Swiss and foreign origin | 144 | 1. Balance sheet | 158 |
| 12.12 Earnings per share | 144 | 2. Income statement | 160 |
| 13. Other information | 145 | 3. Statement of changes in equity | 161 |
| 13.1 Regulatory capital requirements | 145 | 4. Parent-company name and accounting principles | 162 |
| 13.2 Business sector information | 147 | 5. Notes to the balance sheet | 163 |
| 13.3 Consolidated income statement – 5-year overview | 150 | 6. Notes to off-balance-sheet transactions | 179 |
| 13.4 Consolidated balance sheet – 5-year overview | 151 | 7. Notes to the income statement | 180 |
| Statutory auditor's report on the audit of the consolidated financial statements | 152 | 8. Proposals by the Board of Directors | 182 |
| | | Statutory auditor's report on the audit of the parent company financial statements | 183 |

Financial Statements

Report on the Consolidated Financial Statements

Balance sheet growth

1. Assets

Total assets expanded 2% (+CHF 0.7bn) year on year, amounting to CHF 44.1bn at 31 December 2016.

Cash and cash equivalents, which consist primarily of deposits held with the Swiss National Bank, increased 9% (+CHF 0.6bn) to CHF 7.5bn.

Amounts due from banks and reverse repurchase agreements fell 20% (–CHF 411m) to CHF 1.7bn.

Total loans outstanding rose CHF 392m year on year to CHF 29.8bn: mortgage lending grew 2% (+CHF 515m) to CHF 25.0bn, while other loans fell 2% (–CHF 123m) to CHF 4.8bn, primarily as a result of a drop in the Bank's treasury placements.

Total impaired loans were flat at CHF 227m. Impaired loans accounted for less than 1% of total lending, testifying to the quality and resilience of the Bank's loan book.

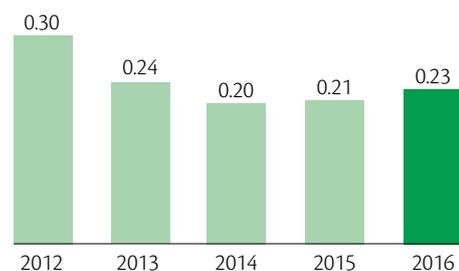
Assets

in CHF billions



Impaired loans

in CHF billions



2. Liabilities

Liabilities amounted to CHF 40.7bn at 31 December 2016, a year-on-year increase of 2% (+CHF 0.6bn).

Amounts due to banks and repurchase agreements were flat at CHF 2.9bn.

Customer deposits were up 1% (+CHF 368m) to CHF 29.2bn, despite a CHF 619m outflow following the end of BCV's online brokerage partnership with PostFinance. On a like-for-like basis, customer deposits grew CHF 1.0bn.

Long-term borrowings rose 6% (+CHF 394m) to CHF 7.3bn, primarily as a result of two CHF 150m bond issues during the year.

3. Shareholders' equity

Total shareholders' equity remained stable at CHF 3.4bn. The allocation of CHF 310m in net profit for the year was offset by the distribution of CHF 284m approved at the Annual Shareholders' Meeting in April 2016.

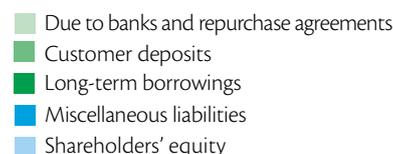
Capital ratios

At year-end, the CET1 ratio was at a comfortable level of 16.8% and the total capital ratio was 16.9%. These ratios, calculated according to the Internal Ratings-Based (IRB) approach, attest to the Bank's financial solidity. The reduction in these ratios relative to 2015 is mainly due to an increase in risk-weighted assets on residential mortgage loans and in activities at the Trade Finance business.

See "Regulatory capital requirements" in note 13.1 on page 145.

Liabilities and shareholders' equity

in CHF billions



Capital ratio

Total capital as a %

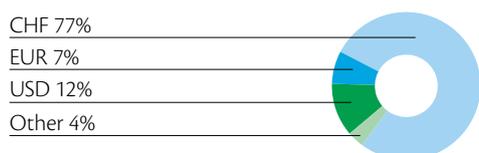


Continued new fund inflows

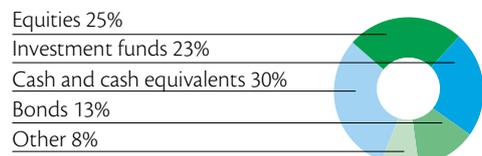
4. Assets under management

The Group's assets under management decreased 3% to CHF 85.4bn as a result of the transfer of assets managed by Swisscanto following its acquisition by ZKB. Net new money totaled CHF 2.3bn, with an inflow of onshore funds (+CHF 3.3bn) offsetting the expected outflow of offshore funds (–CHF 1.0bn).

Assets under management by currency



Assets under management by investment type



Revenues down in a difficult environment

5. Revenues

Total revenues fell 6% year on year to CHF 967m.

The various revenue streams contributed as follows:

- In an environment marked by continued negative interest rates, and with loan impairment provisions amounting to CHF 4.7m (compared with loan impairment reversals of CHF 0.9m in 2015), net interest income fell 3% to CHF 478m.

Assets under management ¹⁾

in CHF billions

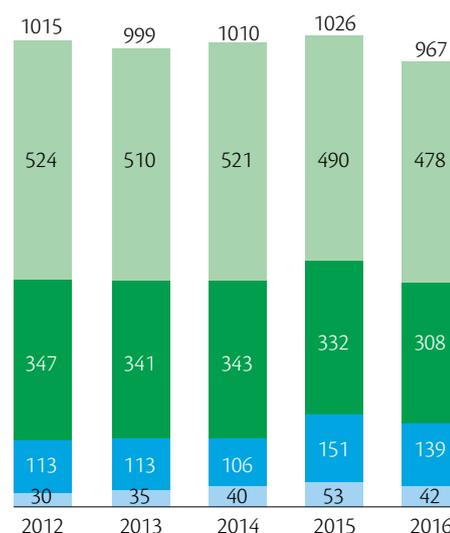


■ Parent company, GÉRIFONDS, GEP
■ PIGUET GALLAND & CIE SA

¹⁾ 2012 figures for assets under management have been adjusted to exclude custody-only assets

Revenues

in CHF millions



■ Net interest income
■ Net fee and commission income
■ Net trading income and fair-value adjustments
■ Other ordinary income

- Fee and commission income declined 7% (–CHF 24m) to CHF 308m. Fees and commissions on securities and investment transactions fell 8% (–CHF 22m) to CHF 241m. Fees and commissions on lending operations were flat at CHF 42m. Fees and commissions on other services decreased 7% (–CHF 6m) to CHF 75m. Fee and commission expense fell 7% (–CHF 4m) to CHF 51m.
- Trading income, which comes primarily from customer-driven activities, declined 7% (–CHF 11m) to CHF 139m. This decrease reflects the spike in forex trading in January and February 2015 after the Swiss National Bank dropped the EUR/CHF currency floor.
- Other ordinary income decreased 20% (–CHF 11m) to CHF 42m, owing to a one-off dividend paid by SIX Group in 2015.

Firm cost control

6. Operating expenses, depreciation, and amortization

Total operating expenses, depreciation, and amortization edged down 1% (–CHF 9m) to CHF 581m.

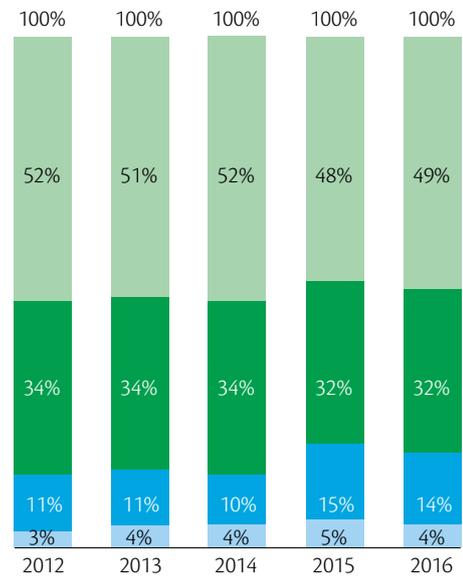
Personnel costs were flat at CHF 338m while other operating expenses decreased 4% (–CHF 6m) to CHF 171m.

Depreciation and amortization of fixed assets declined 4% (–CHF 3m) to CHF 72m, as the mid-2013 insourcing of IT operations reduced IT capital expenditure.

The cost/income ratio, which compares the sum of operating expenses, depreciation, and amortization (excluding goodwill amortization) with total income (excluding loan impairment charges/reversals), increased from 57% to 59%.

Revenues

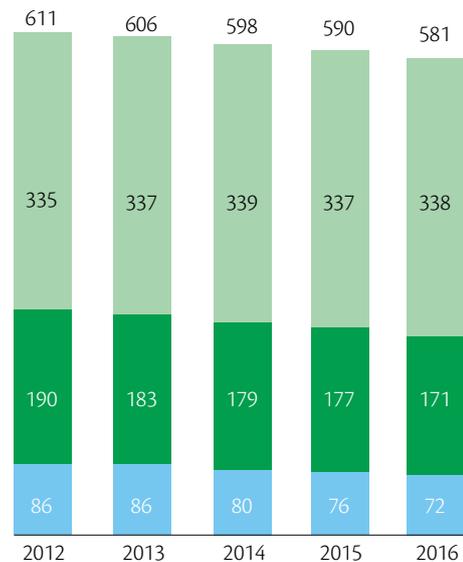
breakdown as a %



- Net interest income
- Net fee and commission income
- Net trading income and fair-value adjustments
- Other ordinary income

Operating expenses, depreciation and amortization

in CHF millions



- Personnel costs
- Other expenses
- Depreciation and amortization

7. Operating profit

Other provisions and losses fell 93% (–CHF 34m) to CHF 3m.

Despite the Bank’s firm cost control, the lower revenue resulted in a 4% drop in operating profit to CHF 383m

8. Net profit

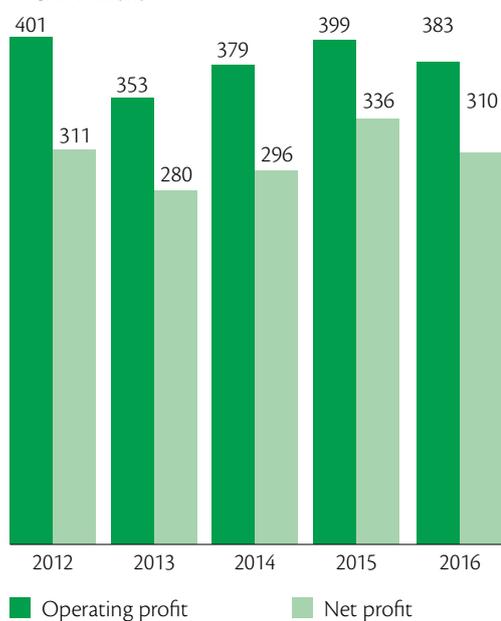
Net profit was CHF 310m, against CHF 336m in 2015. This is 8% (–CHF 27m) lower than in 2015 but higher than in 2013 and 2014.

Extraordinary income was down CHF 22m to CHF 7m, mainly due to the Bank’s sale in 2015 of its stake in Swisscanto.

The Group’s tax burden decreased CHF 8m (–8%) to CHF 83m, compared with CHF 91m in 2015.

Operating and net profit

in CHF millions



Financial Statements

Consolidated Financial Statements

1. Balance sheet (in CHF millions)

| | Notes ¹ | 31 / 12 / 16 | 31 / 12 / 15 | Change absolute | Change as % |
|--|-------------------------|---------------|---------------|--------------------|----------------|
| Cash and cash equivalents | | 7 496 | 6 861 | 635 | 9 |
| Due from banks | | 1 373 | 1 810 | - 437 | - 24 |
| Reverse repurchase agreements | 10.1 | 306 | 280 | 26 | 9 |
| Loans and advances to customers | 10.2 | 4 812 | 4 935 | - 123 | - 2 |
| Mortgage loans | 10.2 | 25 037 | 24 522 | 515 | 2 |
| Trading portfolio assets | 10.3 | 153 | 155 | - 2 | - 1 |
| Positive mark-to-market values of derivative financial instruments | 10.4 | 281 | 343 | - 62 | - 18 |
| Other financial assets at fair value | 10.3 | 630 | 581 | 49 | 8 |
| Financial investments | 10.5/10.7 | 3 234 | 3 140 | 94 | 3 |
| Accrued income and prepaid expenses | | 107 | 106 | 1 | 1 |
| Non-consolidated holdings | 10.6/10.7 | 70 | 48 | 22 | 46 |
| Tangible fixed assets | 10.8 | 517 | 558 | - 41 | - 7 |
| Intangible assets | 10.9 | 16 | 23 | - 7 | - 31 |
| Other assets | 10.10 | 54 | 56 | - 2 | - 4 |
| Assets | 10.20/10.21/10.22/10.24 | 44 085 | 43 418 | 667 | 2 |
| Total subordinated assets | | 0 | 0 | 0 | 0 |
| <i>of which subject to mandatory conversion and/or conditional write-off</i> | | 0 | 0 | 0 | 0 |
| Due to banks | | 1 070 | 1 224 | - 154 | - 13 |
| Repurchase agreements | 10.1 | 1 791 | 1 738 | 53 | 3 |
| Customer deposits | | 29 245 | 28 877 | 368 | 1 |
| Negative mark-to-market values of derivative financial instruments | 10.4 | 244 | 331 | - 87 | - 26 |
| Other financial liabilities at fair value | 10.3/10.14 | 771 | 666 | 105 | 16 |
| Medium-term notes | | 21 | 40 | - 19 | - 46 |
| Bonds and mortgage-backed bonds | 10.14/10.15 | 7 267 | 6 873 | 394 | 6 |
| Accrued expenses and deferred income | | 184 | 219 | - 35 | - 16 |
| Other liabilities | 10.10 | 56 | 35 | 21 | 61 |
| Provisions | 10.16 | 16 | 18 | - 2 | - 10 |
| Liabilities | 10.20 | 40 666 | 40 021 | 645 | 2 |
| Reserves for general banking risks | 10.16 | 701 | 704 | - 3 | - 0 |
| Share capital | | 86 | 86 | 0 | 0 |
| Capital reserve | | 207 | 292 | - 85 | - 29 |
| Retained earnings | | 2 137 | 1 999 | 138 | 7 |
| Currency translation reserve | | - 2 | - 2 | 0 | - 0 |
| Treasury shares | | - 19 | - 18 | - 1 | 6 |
| Minority interests in equity | | 0 | 0 | 0 | 0 |
| Net profit | | 310 | 336 | - 27 | - 8 |
| <i>of which minority interests</i> | | 0 | 0 | 0 | 0 |
| Shareholders' equity | | 3 420 | 3 397 | 22 | 1 |
| Total liabilities and shareholders' equity | 10.21/10.24 | 44 085 | 43 418 | 667 | 2 |
| Total subordinated liabilities | | 0 | 0 | 0 | 0 |
| <i>of which subject to mandatory conversion and/or conditional write-off</i> | | 0 | 0 | 0 | 0 |

¹⁾ The notes are on pages 121–138

| Off-balance-sheet transactions (in CHF millions) | Notes ¹ | 31 / 12 / 16 | 31 / 12 / 15 | Change absolute | Change as % |
|--|--------------------|--------------|--------------|--------------------|----------------|
| Contingent liabilities | 10.2/11.1 | 1 573 | 1 189 | 384 | 32 |
| Irrevocable commitments | 10.2 | 1 261 | 998 | 263 | 26 |
| Commitments relating to calls on shares and other equity securities | 10.2 | 178 | 113 | 65 | 57 |
| Confirmed credits | 10.2/11.2 | 77 | 53 | 24 | 44 |

¹⁾ The notes are on pages 121 and 139

2. Income statement (in CHF millions)

| | Notes ¹ | 2016 | 2015 | Change absolute | Change as % |
|---|--------------------|---------------|---------------|--------------------|----------------|
| Interest and discount income | | 599.0 | 628.7 | -29.7 | -5 |
| Interest and dividend income from financial investments | | 40.3 | 47.4 | -7.1 | -15 |
| Interest expense | | -156.7 | -186.9 | -30.2 | -16 |
| Net interest income before loan impairment charges/reversals | | 482.5 | 489.2 | -6.7 | -1 |
| Loan impairment charges/reversals | 12.1 | -4.7 | 0.9 | -5.6 | n/a |
| Net interest income after loan impairment charges/reversals (NII) | | 477.8 | 490.1 | -12.3 | -3 |
| Fees and commissions on securities and investment transactions | 12.2 | 241.5 | 263.3 | -21.8 | -8 |
| Fees and commissions on lending operations | | 42.2 | 42.7 | -0.5 | -1 |
| Fees and commissions on other services | 12.3 | 75.2 | 80.9 | -5.7 | -7 |
| Fee and commission expense | | -51.0 | -54.6 | -3.6 | -7 |
| Net fee and commission income | | 307.9 | 332.3 | -24.4 | -7 |
| Net trading income and fair-value adjustments | 12.4 | 139.2 | 150.5 | -11.3 | -7 |
| Gains/losses on disposals of financial investments | | 6.4 | 11.4 | -5.0 | -44 |
| Income from equity investments | | 5.5 | 15.3 | -9.8 | -64 |
| <i>of which other non-consolidated holdings</i> | | 5.5 | 15.3 | -9.8 | -64 |
| Real-estate income | | 11.0 | 10.7 | 0.3 | 3 |
| Miscellaneous ordinary income | | 21.6 | 22.1 | -0.5 | -2 |
| Miscellaneous ordinary expenses | | -2.3 | -6.8 | -4.5 | -66 |
| Other ordinary income | | 42.1 | 52.7 | -10.6 | -20 |
| Total income from ordinary banking operations | | 967.1 | 1025.6 | -58.5 | -6 |
| Personnel costs | 12.5 | -338.0 | -337.2 | 0.8 | 0 |
| Other operating expenses | 12.6 | -170.7 | -177.0 | -6.3 | -4 |
| Operating expenses | | -508.7 | -514.2 | -5.5 | -1 |
| Depreciation and amortization of fixed assets and impairment on equity investments | 12.7 | -72.4 | -75.6 | -3.2 | -4 |
| Other provisions and losses | 12.8 | -2.7 | -37.1 | -34.4 | -93 |
| Operating profit | 12.11 | 383.4 | 398.7 | -15.3 | -4 |
| Extraordinary income | 12.9 | 6.7 | 28.6 | -21.9 | -76 |
| Extraordinary expenses | | 0.0 | 0.0 | 0.0 | n/a |
| Change in reserves for general banking risks | | 3.0 | 0.0 | 3.0 | n/a |
| Taxes | 12.10 | -83.5 | -91.0 | -7.5 | -8 |
| Net profit | | 309.6 | 336.3 | -26.7 | -8 |
| Minority interests | | 0.0 | 0.0 | 0.0 | 0 |
| Net profit attributable to BCV shareholders | | 309.6 | 336.3 | -26.7 | -8 |

¹⁾ The notes are on pages 141–144

3. Cash flow statement (in CHF millions)

| | Notes ¹⁾ | Source of funds | 2016 Use of funds | Net cash inflow / outflow | Source of funds | 2015 Use of funds | Net cash inflow / outflow |
|--|---------------------|-----------------|----------------------|---------------------------|-----------------|----------------------|---------------------------|
| Net profit for the year | | 310 | | | 336 | | |
| Reserves for general banking risks | | | 3 | | | | |
| Depreciation and amortization of fixed assets and impairment on equity investments | 12.7 | 72 | | | 75 | | |
| Provisions and other impairment charges/reversals | 10.16 | 5 | 3 | | 26 | 2 | |
| Loan impairment charges/reversals | 10.16 | 21 | 16 | | 24 | 25 | |
| Accrued income and prepaid expenses | | | 1 | | 11 | | |
| Accrued expenses and deferred income | | | 35 | | 2 | | |
| Extraordinary income: sale of equity holdings | | | 5 | | | 26 | |
| Other items | | | | | | | |
| Dividend for the previous year | | | 198 | | | 189 | |
| Cash flow from operations | | 408 | 261 | 146 | 474 | 242 | 232 |
| Distribution drawn from paid-in reserves | | | 86 | | | 86 | |
| Treasury shares | | 36 | 36 | | 41 | 45 | |
| Change in scope of consolidation, minority interests, and currency translation differences | | | | | | 1 | |
| Cash flow from equity transactions | | 36 | 122 | -85 | 41 | 132 | -91 |
| Non-consolidated holdings | 10.6 | 5 | 22 | | 32 | | |
| Real estate | 10.8 | 24 | 6 | | | 7 | |
| Computer programs | 10.8 | | 39 | | | 39 | |
| Other tangible fixed assets | 10.8 | | 7 | | | 6 | |
| Intangible assets | 10.9 | 3 | | | | | |
| Cash flow from investments | | 32 | 73 | -41 | 32 | 52 | -20 |
| Cash flow from banking operations | | | | | | | |
| Due to banks | | | 100 | | | 50 | |
| Customer deposits | | | 12 | | | 254 | |
| Medium-term notes | | | 19 | | | 17 | |
| Long-term borrowings | 10.15 | 1523 | 1130 | | 1714 | 1280 | |
| Other liabilities | | 18 | | | | 78 | |
| Due from banks | | | 0 | | 25 | | |
| Loans and advances to customers | | | 169 | | 281 | | |
| Mortgage loans | | | 513 | | | 477 | |
| Financial investments | | | 171 | | 113 | | |
| Other receivables | | 2 | | | 40 | | |
| Medium- and long-term operations (over 1 year) | | 1543 | 2114 | -571 | 2173 | 2156 | 17 |
| Due to banks | | | 54 | | | 118 | |
| Repurchase agreements | | 53 | | | | 778 | |
| Customer deposits | | 380 | | | | 599 | |
| Negative mark-to-market values of derivative financial instruments | | | 87 | | | 115 | |
| Other financial liabilities at fair value | | 105 | | | 102 | | |
| Due from banks | | 437 | | | | 353 | |
| Reverse repurchase agreements | | | 26 | | 135 | | |
| Loans and advances to customers | | 286 | | | 460 | | |
| Trading portfolio assets | | 2 | | | 39 | | |
| Positive mark-to-market values of derivative financial instruments | | 62 | | | 90 | | |
| Other financial assets at fair value | | | 49 | | | 96 | |
| Financial investments | | 77 | | | 6 | | |
| Short-term operations | | 1402 | 216 | 1186 | 2327 | 564 | 1763 |
| Cash and cash equivalents | | | 635 | -635 | | 1901 | -1901 |
| Total | | 3421 | 3421 | 0 | 5047 | 5047 | 0 |

¹⁾ The notes are on pages 124–143

A net positive amount represents a cash inflow, while a net negative amount represents a cash outflow.

4. Statement of changes in equity (in CHF millions)

| | Share capital | Capital reserve | Retained earnings | Reserves for general banking risks | Currency translation reserve | Treasury shares | Equity - minority interests | Net profit for the year | Total equity |
|--|---------------|-----------------|-------------------|------------------------------------|------------------------------|-----------------|-----------------------------|-------------------------|--------------|
| Status at 1 January 2014 | 86 | 192 | 2 072 | 704 | - 1 | - 11 | 0 | 280 | 3 322 |
| 2013 dividend | | | | | | | | - 189 | - 189 |
| Special dividend | | - 86 | | | | | | | - 86 |
| Retained earnings | | | 91 | | | | | - 91 | 0 |
| Purchases of treasury shares (at cost) | | | | | | - 28 | | | - 28 |
| Disposals of treasury shares (at cost) | | | | | | 26 | | | 26 |
| Gain on disposals of treasury shares and dividends | | 0 | | | | | | | 0 |
| Effect of exchange-rate differences | | | | | 0 | | | | 0 |
| Changes in scope and/or minority interests | | | 0 | | | | | | 0 |
| Net profit for the year | | | | | | | 0 | 296 | 296 |
| Status at 31 December 2014 | 86 | 106 | 2 163 | 704 | - 1 | - 13 | 0 | 296 | 3 341 |
| 2014 dividend | | | | | | | | - 189 | - 189 |
| Special dividend | | - 86 | | | | | | | - 86 |
| Retained earnings | | | 107 | | | | | - 107 | 0 |
| Purchases of treasury shares (at cost) | | | | | | - 46 | | | - 46 |
| Disposals of treasury shares (at cost) | | | | | | 41 | | | 41 |
| Gain on disposals of treasury shares and dividends | | 1 | | | | | | | 1 |
| Effect of exchange-rate differences | | | | | - 1 | | | | - 1 |
| Transfer from retained earnings to capital reserve ¹⁾ | | 271 | - 271 | | | | | | 0 |
| Changes in scope and/or minority interests | | | 0 | | | | | | 0 |
| Net profit for the year | | | | | | | 0 | 336 | 336 |
| Status at 31 December 2015 | 86 | 292 | 1 999 | 704 | - 2 | - 18 | 0 | 336 | 3 397 |
| 2015 dividend | | | | | | | | - 198 | - 198 |
| Special dividend | | - 86 | | | | | | | - 86 |
| Retained earnings | | | 138 | | | | | - 138 | 0 |
| Purchases of treasury shares (at cost) | | | | | | - 37 | | | - 37 |
| Disposals of treasury shares (at cost) | | | | | | 36 | | | 36 |
| Gain on disposals of treasury shares and dividends | | 1 | | | | | | | 1 |
| Effect of exchange-rate differences | | | | | 0 | | | | 0 |
| Change in reserves for general banking risks | | | | - 3 | | | | | - 3 |
| Changes in scope and/or minority interests | | | 0 | | | | - 0 | | 0 |
| Net profit for the year | | | | | | | 0 | 310 | 310 |
| Status at 31 December 2016 | 86 | 207 | 2 137 | 701 | - 2 | - 19 | 0 | 310 | 3 420 |

¹⁾ Transfer made for better clarity and consistency with the parent company financial statements

5. Company name, operations and headcount

5.1 Company name, legal status and head office

Banque Cantonale Vaudoise (BCV) was founded on 19 December 1845 by the Vaud Cantonal Parliament as a société anonyme de droit public (i.e., a corporation organized under public law). Its legal status is defined in the Cantonal Act Governing the Organization of Banque Cantonale Vaudoise (LBCV) of 20 June 1995, and its head office is in Lausanne.

5.2 Overview of operations

BCV operates as a full-service bank with a community focus. Its corporate mandate is to contribute to the economic development of its home region, the Canton of Vaud.

It offers a full range of services in retail banking, wealth management, corporate banking and trading. Along with its traditional areas of business (savings & loans and wealth management), BCV engages in large-corporate financing and selected trade-financing operations in commodities (primarily softs and metals). It offers a broad portfolio of financial-market services, including equity and derivatives trading and fixed-income instruments. The Bank is also active in foreign-exchange trading and in developing and issuing structured products.

BCV is the parent company of a banking and financial group, which encompasses a private bank and two fund management companies. The Bank also has a branch in Guernsey (Banque Cantonale Vaudoise Guernsey Branch), which is active in structured products and fiduciary investments.

5.3 Headcount

| Full-time equivalents | 31 / 12 / 16 | 31 / 12 / 15 |
|-------------------------|--------------|--------------|
| Group | 1 943 | 1 947 |
| of which parent company | 1 739 | 1 734 |

6. Accounting principles for the consolidated financial statements

6.1 Basis of preparation of consolidated financial statements

The consolidated financial statements of BCV Group have been prepared in accordance with the Swiss Federal Act of 8 November 1934 on Banks and Savings Institutions, the corresponding Ordinance of 30 April 2014 and the Swiss Accounting Rules for Banks, Securities Dealers, Financial Groups and Conglomerates of 27 March 2014 (FINMA Circular 2015/1). The financial statements give a true and fair view of the assets, financial position and results of BCV Group.

The consolidated financial statements are based on Group companies' full-year accounts, which are prepared in accordance with generally accepted accounting principles. The accounts are closed at 31 December of every year.

6.2 Scope of consolidation

Companies over which BCV has control and companies in which it has significant influence over their operations are fully consolidated. Significant influence is generally recognized by BCV when it makes a profit on and bears the risks of a company's operations.

Companies over which BCV has significant influence but no outright control (holdings of 20%-50%) are accounted for using the equity method.

The following companies are not included in the scope of consolidation:

- Holdings of no material significance in terms of financial reporting and risk
- Significant holdings not acquired for strategic purposes and intended to be sold or liquidated within 12 months.

6.3 Basis of consolidation

Equity is consolidated using the acquisition method. The acquisition cost of a holding is offset against the equity existing on the date on which control is transferred. Goodwill is carried on the balance sheet under “Intangible assets” and amortized on a straight-line basis over its estimated useful life (maximum of ten years).

6.4 Accounting and valuation principles

6.4.1 Cash and cash equivalents

Cash and cash equivalents comprise ordinary coins and banknotes and assets held with the Swiss National Bank and clearing houses; they are carried at nominal value.

6.4.2 Due from banks

Amounts due from banks are carried at nominal value less any impairment, as set out in note 7.2 under “Risk-assessment and risk-management principles.”

6.4.3 Reverse repurchase agreements

Receivables from cash collateral related to reverse repurchase agreements are carried at nominal value.

Reverse repurchase agreements are not recognized on the balance sheet unless the ownership rights pass to the Group.

6.4.4 Loans and advances to customers and Mortgage loans

Loans and advances to customers and Mortgage loans are carried at nominal value less any impairment, as set out in note 7.2 under “Risk-assessment and risk-management principles.”

6.4.5 Trading portfolio assets

Trading portfolio assets include positions in equity securities, debt securities and precious metals and are held in order to take advantage of market-price fluctuations.

These positions are carried at fair value with reference to the prices quoted on the most representative market.

6.4.6 Positive mark-to-market values of derivative financial instruments

Derivative financial instruments recorded at the balance-sheet date are carried at fair value with reference to the prices quoted on the most representative market. For positions that are not traded on sufficiently liquid markets, fair value is determined using a valuation model. Any resulting positive mark-to-market values are recognized under this item.

Positive mark-to-market values relating to transactions with the same counterparty and hedged by a netting agreement are carried on the balance sheet at net value.

6.4.7 Other financial assets at fair value

Securities needed to hedge structured products issued by BCV and recorded as a liability are carried under this line item. These positions are carried at fair value with reference to the prices quoted on the most representative market. For positions that are not traded on sufficiently liquid markets, fair value is determined using a valuation model.

6.4.8 Financial investments

Financial investments include securities and precious metals acquired for medium- and long-term investment purposes, as well as equity securities held neither for trading nor as a long-term investment. Available-for-sale real estate acquired in connection with lending operations is also carried under this item.

Held-to-maturity interest-bearing securities are carried at cost, with premiums or discounts amortized over the remaining term of the instrument using the accrual method. Gains and losses arising from their sale or early redemption are recorded proportionally up to the initial maturity date of the securities. Any related loan impairment charges or reversals are recorded on the income statement under the corresponding line item.

Interest-bearing securities not intended to be held until maturity, as well as equity securities and available-for-sale real estate, are carried at the lower of cost or market value. As a general rule, impairment charges and reversals on these assets are recorded under “Miscellaneous ordinary expenses” or “Miscellaneous ordinary income.” Where impairment can be broken down into loan impairment and market-related impairment, loan impairment charges and reversals are recorded on the income statement under the corresponding line item.

6.4.9 Accrued income and prepaid expenses

This item mainly consists of accrued interest and other transitory assets.

6.4.10 Non-consolidated holdings

Non-consolidated holdings comprise equity securities that are held as a long-term investment, irrespective of voting rights. They also include the Group’s infrastructure-related holdings, particularly joint ventures. They are carried at cost less any impairment.

These holdings are reviewed for impairment at each balance-sheet date, based on whether there is an indication of a loss in value. If there is such an indication, the Group determines the realizable value of each asset.

The realizable value is the higher of the net fair value and the value in use. The asset is written down if its carrying value exceeds its realizable value. In this case, the carrying value is reduced to the realizable value and the difference is charged to the income statement under “Depreciation and amortization of fixed assets and impairment on equity investments.”

6.4.11 Tangible fixed assets

Tangible fixed assets are carried at cost, or at direct production cost for software developed by the Bank for in-house use.

They are depreciated on a straight-line basis over their estimated useful lives within the following limits:

- Fifty years for real estate
- Ten years for technical facilities
- Five years for machinery, furniture and fittings
- Five years for computer software and hardware.

Any depreciation recorded over an asset’s remaining estimated useful life or additional write-downs made subsequent to impairment reviews are charged to the income statement for the period, under “Depreciation and amortization of fixed assets and impairment on equity investments.”

These assets are reviewed annually for impairment. If there is a decline in value or a change in the useful life, the carrying value of the asset is written down and the written-down value is depreciated over the remaining estimated useful life of the asset.

6.4.12 Intangible assets

Goodwill is carried on the balance sheet and amortized on a straight-line basis over its estimated useful life (maximum of ten years).

Goodwill is reviewed for impairment at each balance-sheet date, based on whether there is an indication of a loss in value. In this case, the carrying value is reduced to the realizable value and the difference is charged to the income statement under “Depreciation and amortization of fixed assets and impairment on equity investments.”

6.4.13 Other assets

This item mainly comprises coupons, indirect taxes to be recovered and any positive offset account balances.

6.4.14 Due to banks

Amounts due to banks are carried at nominal value.

6.4.15 Repurchase agreements

Commitments from cash collateral related to repurchase agreements are carried at nominal value.

Repurchase agreements are carried on the balance sheet and valued in the same way as Financial investments, provided that the Group continues to be the beneficial owner.

6.4.16 Customer deposits

This item comprises all amounts due to non-bank customers, carried at nominal value.

6.4.17 Negative mark-to-market values of derivative financial instruments

Derivative financial instruments recorded at the balance-sheet date are carried at fair value with reference to the prices quoted on the most representative market. For positions that are not traded on sufficiently liquid markets, fair value is determined using a valuation model. Any resulting negative mark-to-market values are recognized under this line item.

Negative replacement values relating to transactions with the same counterparty and hedged by a netting agreement are carried on the balance sheet at net value.

6.4.18 Other financial liabilities at fair value

This item includes structured products without an interest rate component that are issued by the Bank, including participation products (fractions of equity baskets) and yield-enhancement products. They are carried at fair value with reference to a quoted market price or a valuation model. Subsequent revaluations are recognized under “Net trading income and fair-value adjustments.”

6.4.19 Medium-term notes

Medium-term notes issued by the Bank for a term of between two and eight years are carried at nominal value.

6.4.20 Bonds and mortgage-backed bonds

This item consists of borrowings from the Central Mortgage-Bond Institution of Swiss Cantonal Banks, as well as bonds issued by the Bank. They are carried at nominal value; any discount or premium is recorded under accrued or deferred items and amortized over the term of the instrument under “Interest expense.”

This line item also includes yield-enhancement, participation and capital-protection structured products issued by the Bank and containing an interest-rate component.

For these structured products, the host instrument and the embedded derivatives are treated separately. The host instrument is recorded under this line item at nominal value as a debt issued by the Bank. Embedded derivatives are carried as either positive or negative mark-to-market values. Subsequent variations are recognized under “Net trading income and fair-value adjustments.”

Interest accrued in the interest-rate component is recorded under “Interest expense” using the accrual method.

Positions in bonds and structured products issued by BCV are deducted from this item.

6.4.21 Accrued expenses and deferred income

This item mainly consists of accrued interest, taxes due on Group companies' earnings and capital, and other transitory liabilities.

Direct tax is calculated in accordance with the matching principle and is recognized in the income statement under "Taxes."

6.4.22 Other liabilities

This item mainly comprises coupons, indirect taxes to be paid and any negative offset account balances.

6.4.23 Provisions

Provisions include provisions necessary for business operations, provisions for hedging tangible and latent risks of loss, credit-risk provisions for off-balance-sheet transactions and provisions for deferred taxes.

Deferred taxes are calculated based on differences between tax values and book values. They are recognized in the income statement under "Taxes."

6.4.24 Reserves for general banking risks

To cover risks inherent in the banking business which are not already covered by specific provisions, the Group sets aside "Reserves for general banking risks." These reserves are part of shareholders' equity and are taxed or subject to a deferred tax (see note 10.16 below).

6.4.25 Share capital

This line item consists of the Bank's share capital.

6.4.26 Capital reserve

The capital reserve comprises additional paid-in capital obtained through the issue of equity securities and the exercise of conversion rights and options, along with gains and losses realized and dividends received on treasury shares.

6.4.27 Retained earnings

This line item represents capital accrued by the Group; it consists primarily of appropriated retained earnings and the effect of changes in the scope of consolidation.

6.4.28 Currency translation reserve

Exchange-rate differences resulting from the translation of Group company accounts denominated in foreign currencies are recorded under this line item and not through profit or loss.

6.4.29 Treasury shares

Treasury shares (i.e., registered shares of Banque Cantonale Vaudoise) are deducted from shareholders' equity at cost. Dividend payments and gains and losses on disposals are allocated directly to the capital reserve.

6.4.30 Contingent liabilities

Contingent liabilities mainly comprise commitments to secure credits, issued in the form of bills of exchange, surety bonds and guarantees, including irrevocable letters of credit, endorsements of re-discounted bills, advance payment guarantees and similar facilities such as pledges in favor of third parties.

This type of liability is contingent if, when the transaction is entered into, the main debtor has no debt towards a third party but may incur such debt at a later date.

6.4.31 Irrevocable commitments

This line item includes commitments to grant loans and other services that are unused but firm and irrevocable at the balance-sheet date, together with payment commitments relative to depositor protection schemes.

6.4.32 Commitments relating to calls on shares and other equity securities

This line item includes commitments relating to calls on shares and other equity securities.

6.4.33 Confirmed credits

Commitments arising from deferred payments, as well as from acceptances and other confirmed credits, are included under this line item.

6.4.34 Pension-fund liabilities

Pension-fund liabilities are understood to mean obligations arising under pension plans and pension funds which provide retirement, death and disability benefits.

When preparing its year-end accounts, the Group determines, for each pension fund, whether there are any assets (benefits) or liabilities (obligations) other than the contribution benefits and related adjustments. This assessment is based on the financial situation of the pension funds as shown in their interim accounts at 30 September.

Any liabilities are carried on the balance sheet under "Provisions," while any economic benefit is carried under "Other assets." Any changes from the corresponding value in the previous financial year are recognized for each pension fund under "Personnel costs."

Adjusted contributions for the period are also carried under "Personnel costs."

An economic liability arises if the Group decides or is obliged to participate in the financing of an underfunded pension fund, while an economic benefit arises if there is a potential positive effect on future cash flows as a result of pension-fund overfunding. Moreover, in the case of overfunding, an economic benefit exists if there is a lawful intention to use the overfunding to reduce the employer's contributions, to refund the contributions to the employer by virtue of local legislation, or to use them for any economic purpose of the employer other than regulatory benefits.

6.5 Changes to accounting principles

No changes were made to the accounting principles in 2016.

6.6 Registration of business transactions

All transactions concluded up until the balance sheet date are recorded on the date they are concluded and are valued according to the above accounting principles.

6.7 Foreign-currency translation

Transactions in foreign currencies during the year are translated at the exchange rates prevailing on the transaction date.

Assets and liabilities held in foreign currencies at the close of the financial year are translated into Swiss francs at the exchange rates prevailing on that date, provided that they are not valued at their historical rates.

Foreign-exchange gains and losses, including unrealized gains and losses on forward foreign-exchange contracts open at the balance-sheet date, are carried in the income statement. Balance-sheet items and off-balance-sheet transactions of foreign holdings are translated at year-end exchange rates set for the Group, with the exception of shareholders' equity invested in these holdings, which is translated at historical rates.

Income-statement items are translated at the average annual exchange rates set for the Group. Differences arising from the translation of shareholders' equity and the income statement are recorded directly in shareholders' equity.

| Major currencies in CHF | Units | Rates at 31 / 12 / 16 | Rates at 31 / 12 / 15 |
|----------------------------|-------|--------------------------|--------------------------|
| Euro | 1 | 1.0720 | 1.0874 |
| U.S. dollar | 1 | 1.0164 | 1.0010 |
| Pound sterling | 1 | 1.2559 | 1.4754 |
| Japanese yen | 100 | 0.8714 | 0.8321 |

6.8 Refinancing of trading positions

The cost of refinancing securities held in the trading portfolios is netted against interest and dividend income from these portfolios, and recorded under "Net trading income and fair-value adjustments."

7. Risk-assessment and risk-management principles

7.1 Introduction

The Board of Directors periodically analyzes the Bank's main risks. The analyses are based on the risk-management processes and methods in place, and contain a forward-looking evaluation of the risks to which BCV is exposed. In these analyses, the Board of Directors takes into account the Bank's existing control system for managing and mitigating risks.

BCV's risk-management objectives and approach are presented in the risk management chapter. This section explains in more detail the principles that the Bank applies in assessing risks.

7.2 Credit risk

7.2.1 Exposure to credit risk

Credit risk arises from the possibility that a counterparty might default on its financial obligations to the Bank. It corresponds to the default risk set out in FINMA Circular 2015/1 and includes settlement risk. All forms of credit commitments to bank and non-bank counterparties, whether on or off the balance sheet, represent a credit risk for the Bank.

The Bank distinguishes five types of exposure to credit risk:

- Financial exposures, which are characterized by an outflow of funds
- Off-balance-sheet commercial exposures, stemming from guarantees given by the Bank or obtained in respect of counterparties
- Exposures resulting from bilateral derivatives contracts with positive mark-to-market values
- Exposures resulting from repos/reverse repos and securities lending/borrowing transactions
- Settlement exposures, which result from a time lag between when funds or securities are sent and when funds or securities are received in exchange.

Every position that entails credit risk is clearly assigned to one of these exposure categories. The Bank uses clearly defined methods for determining exposure levels by exposure category. Overall or specific limits are set for financial, off-balance-sheet commercial and OTC derivatives exposures. Limits are likewise set for settlement exposures to bank counterparties. When positions are unwound through a simultaneous settlement system, such as CLS (Continuous Linked Settlement), settlement risk is not considered.

For trade-finance activities, credit risk is closely linked to country risk in emerging markets. In order to monitor this type of risk, the Bank analyzes and limits both its financial exposure (financial transfer risk) and non-financial exposure (risk that a physical transaction will not be unwound), particularly with respect to emerging markets.

7.2.2 Internal counterparty default ratings

The Bank considers a counterparty to be "in default" if one or more criteria are met (see definition of "in default" in note 7.2.5). Each counterparty is assigned a default rating based on clearly defined models. Each default rating is defined by an interval of default probabilities. Seven main ratings and 17 sub-ratings are used to classify counterparties according to their risk of default.

7.2.3 Loss given default and expected loss

Loss given default is the amount that the Bank stands to lose on a loan at the time that the counterparty defaults. Loss given default is determined for each form of credit granted by taking into account the credit limit and the coverage ratio, which is the value of the risk mitigants expressed as a percentage of the limit. For this purpose, collateral is taken at market value (see note 7.2.4).

For unimpaired loans (see note 7.2.5), the Bank estimates the amount that it expects to lose in an "average" year. This amount is called the expected loss. For credit exposures not relating to trade finance, the expected loss is determined by the probability of default (reflected in the counterparty default rating) and the loss given default. For trade-finance exposures, the expected loss is estimated for each transaction, using an approach based on Basel slotting criteria.

7.2.4 Market value of collateral

The Bank measures collateral on the basis of its market value, provided a suitable market exists. Various valuation methods are used, depending on the characteristics of the collateral and the sources of information about it. Each item of collateral is clearly assigned to a valuation method.

More specifically, the market value for a real-estate asset is the estimated price at which the asset would be likely to change hands on the measurement date, between knowledgeable, willing parties in an arm's length transaction, after an appropriate marketing process.

Provided their value is below a set amount, single-family homes, condominium apartments and income-generating real estate are valued using hedonic pricing models or capitalization pricing models in collaboration with experts. Other types of real estate and real estate with values above the set amount are valued by experts.

7.2.5 Impaired loans

A loan is impaired when the counterparty is unlikely to be able to meet its future credit obligations. The counterparty is then "in default" and all its debts to the Bank are considered "non-performing."

A counterparty is "in default" when it is more than 90 days past due on any material credit obligation to the Bank or when the Bank considers that the counterparty is unlikely to pay its credit obligations to the Bank in full.

7.2.6 Overdue-interest loans

A loan is considered to be an "overdue-interest" loan when at least one of the following three criteria is met:

- Advances and mortgage loans: interest and fees are more than 90 days past due
- Current-account credits: the agreed credit limit has been exceeded owing to insufficient payments in respect of interest and fees for more than 90 days
- The credit has been called in by the Bank.

"Overdue-interest" loans are in principle impaired.

7.2.7 Provisions for credit risk

The purpose of credit-risk provisions is to recognize, at the balance-sheet date, the expected loss on impaired loans and on unimpaired loans with latent risks.

Provisions for impaired loans are determined individually for each counterparty. The provision calculation takes into account total credit exposures to the counterparty on and off the balance sheet, the liquidation value of the collateral, market conditions, the quality of the counterparty's management, and the counterparty's ability and willingness to honor its commitments.

The liquidation value is the estimated net realizable value of the asset. It is calculated on the basis of the current market value of the asset, taking into account sell-by objectives, current market conditions and selling costs (including any costs of holding the asset until sale and transaction-related costs).

Provisions for latent risks are recognized for counterparties representing a heightened credit risk. Heightened credit risks are identified for counterparties that are "reputed to be in financial difficulty" and for country risk.

A counterparty is classified as "reputed to be in financial difficulty" when the criteria for "in default" are not met, but when the Bank considers there to be a high risk that part of its exposure to credit risk on the counterparty will not be recovered, or when a significant breach of contract on any of the forms of credit extended to the counterparty by the Bank has occurred and has not been remedied without a temporary or permanent exemption being granted. These loans are not impaired because the Bank deems that the counterparty is still likely to be able to meet its future credit obligations.

Provisions for country risk are intended to cover potential losses from financial or non-financial exposures – relating to the unwinding of transactions – in high-risk countries.

7.2.8 Regulatory capital requirements for credit risk

BCV has been applying the Foundation Internal Ratings-Based (FIRB) approach to determine the regulatory capital requirements for a large part of its credit-risk exposure since 2009, having obtained approval from FINMA in December 2008. The scope of this approach is detailed in the Bank's Basel III Pillar 3 Report. The international Standard Approach (SA-BIS) is used for the remaining credit-risk exposure.

7.3 Market risk on the trading book

Market risk arises from the possibility of losses on the Bank's trading book as a result of changes in market parameters, in particular the price and price volatility of the underlying security. Trading positions are positions in equities, fixed-income instruments, currencies and precious metals. Positions in underlying instruments are classified as "simple" positions, whereas positions in futures contracts, swaps or options are classified as "derivative" positions.

Each trading position is valued at the price quoted on a reference market or on the basis of price information calculated using a valuation model that incorporates observable market parameters.

The Bank manages its market risk on the trading book by setting limits in terms of net portfolio value, value-at-risk (VaR), stress loss, and sensitivity measures (Greeks).

VaR is a statistical measure. It is calculated with a 99% confidence interval. For a given time horizon, VaR represents the distribution of results by showing the best result among the worst 1% of possible results. It is measured at the portfolio and sub-portfolio levels. It is calculated on the basis of complete revaluations of positions by subjecting them to past changes in the various market parameters. For trading positions, the liquidation horizon is one day. For the nostro (i.e., proprietary) portfolio managed by the Asset Management Department, the liquidation horizon is six months.

Stress-loss analyses are used to measure potential losses that are not taken into account by VaR analysis.

Stress scenarios seek to model the most adverse possible movements in risk factors. Scenarios are determined for all

trading positions taken together as well as for the various sub-portfolios.

For all trading positions, the Bank uses static-portfolio stress scenarios to model short-term stress. Six-month scenarios are used for the nostro portfolio managed by the Asset Management Department, analyzing cumulative results over that period.

Sensitivity measures are used to monitor local exposure to risks arising from trading positions (i.e., marginal variations in risk factors). For trading book portfolios, the main sensitivity measures used are delta, gamma, vega, theta and rho.

The Bank determines its capital requirements for market risk using the Standard Approach (SA-BIS).

7.4 Market risk on the banking book

The Bank assesses market risk on positions in the banking book by measuring interest-rate risk and liquidity risk.

7.4.1 Interest-rate risk on the banking book

Interest-rate risk on the banking book arises from mismatches between the size and terms (dates on which interest rates are fixed) of asset and liability positions. It is attributable to movements in the yield curve and changes in customer behavior. These variations directly affect the Bank's interest income and the economic value of its share capital. For variable-rate positions (adjustable-rate mortgages, traditional savings deposits with no fixed term, and sight deposits), models are used to reproduce as faithfully as possible the pace and magnitude of changes in customer interest rates according to the market rate.

The Bank monitors two measures of loss arising from interest-rate risk on the balance sheet:

- Loss of interest margin, which is both an economic loss and an accounting loss, and
- Loss of economic value of share capital, which by definition is not reflected in the accounts.

Every month, the Bank calculates various measures of interest-rate risk, which enable it to monitor the impacts on the interest margin and the economic value of share capital:

- Static indicators: to monitor the economic value of share capital, the Bank calculates the duration of share capital, the sensitivity of share capital to an interest-rate shock, and historical VaR with a confidence interval of 99% and a 3-month time horizon. To monitor the net interest margin, the Bank calculates interest-rate gaps by residual maturity.
- Dynamic indicators: every month, the Bank prepares scenarios regarding interest rates and business volumes, combined with various hedging strategies. These dynamic simulations take into account customer behavior with respect to interest rates in order to simulate the interest margin and potential losses in circumstances that lie between a probable scenario and a stress scenario. For each scenario, indicators showing the duration and value of share capital are calculated for several future dates to measure the future exposure of share capital to interest-rate risk. These dynamic simulations are carried out for a 3-year horizon.

7.4.2 Liquidity risk

Liquidity risk arises from the possibility that the Bank does not have the resources on hand to deal with the potential outflow of funds that could occur at any time in view of the liabilities that it holds and changes in its assets. This risk is determined by the pace of withdrawals, the concentration of liabilities, the Bank's ability to raise funds, and prevailing terms and conditions in the interbank and capital markets.

The Bank monitors its exposure to liquidity risk in the medium/long term, as well as in the short term, by preparing maturity schedules for on-balance-sheet exposures, by calculating balance-sheet ratios and by modeling the future structure of its balance sheet using dynamic simulations. When conducting these simulations, the Bank also calculates regulatory ratios – i.e., the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR) – at different time horizons. These simulations enable the Bank to determine its long-term approach to funding, particularly as regards raising funds from the Central Mortgage-Bond Institution and on the bond market, as well as the size and composition of its liquidity reserve. The Bank also stress-tests its regulatory liquidity ratios.

7.5 Operational risk

Operational risk arises from inadequacies or failures relating to processes, people and information systems within or external to the Bank. It is a risk inherent in banking activities and results from:

- Erroneous or malicious behavior of employees, suppliers, bank counterparties, customers or other parties external to the Bank
- Inadequate IT systems (applications, interfaces and hardware) or communication systems (telephone, fax, etc.)
- Inadequate infrastructure
- Inadequate organization in terms of processes (methods, procedures, organizational structure, etc.) or governance (rules, policies, directives, manuals, etc.)
- External incidents.

The Bank monitors its exposure to operational-risk events using a classification with seven categories:

- Internal fraud
- External fraud
- Incidents related to human resources, including workplace safety
- Incidents linked to customer relations and commercial practices
- Losses of operating resources
- Failure of information systems
- Incidents related to transaction and process management.

An operational-risk event that has occurred is booked directly as an outright loss. Provisions are recognized for the additional costs expected but not yet incurred. The Bank determines its regulatory capital requirements for operational risk according to the Standard Approach.

8. Use of hedge accounting

The Group uses derivatives as part of its asset- and liability-management strategy, primarily to hedge interest-rate risk. These transactions are recognized as macro and micro hedges, and net gains or losses after interest are recorded under “Interest and discount income” or “Interest expense.” Changes in the fair value of hedging instruments are recognized in the offset accounts under “Other assets” or “Other liabilities.”

Whenever derivatives are used for hedging purposes, records are kept of the transactions, the objectives and strategies of the Bank’s unit in charge of managing market risk on the balance sheet, and the system used to monitor the effectiveness of the hedge.

The hedging instruments used are almost exclusively interest-rate swaps (IRS), in which the Bank may be either the payer or the receiver; the large majority of these IRS are denominated in Swiss francs. Receiver IRS are all micro hedges, and in most cases the hedged items are the Bank’s long-term borrowings (i.e., its own bond issues or issues made through the Central Mortgage-Bond Bank). Payer IRS can be either micro or macro hedges, and the hedged items are either fixed-term mortgages or financial investments.

Micro hedges are used to reduce the risk on a clearly defined underlying position. The hedges have the same nominal value and the same maturity as the hedged position, although a large underlying position may require several hedges.

Most macro hedges are used to hedge mortgage loans. The hedging instruments mature during the same month that the terms of the underlying mortgage loans end.

In order to prevent any over-hedged positions, the nominal value of the underlying positions must be 10% higher than that of the hedging instrument in order to take account of any depreciation, impairment, early redemption or repayment. When entering into a hedging relationship, the Bank draws up documents stipulating the designation of the hedging instrument and the underlying transaction or group of transactions, together with their main features. The type of risk hedged and the system for assessing the effectiveness of the hedge are also provided.

As the Bank uses linear hedging, there is a very close economic relationship between the underlying positions and the hedging instruments. For mortgage loans, the main difference between the hedging instrument and the underlying position is the interest rate, as the rate on the mortgage loans includes the Bank’s margin.

Hedges are tested for their effectiveness every quarter. The main aim of the test is to ensure that the nominal value of the underlying positions is still at or above the nominal value of the hedging instrument. A forward-looking assessment of the hedging relationship is also conducted by measuring how the economic value of the hedging instrument and the hedged positions would be affected by a 100bp rise or fall in interest rates. To qualify as a hedge, the change in the value of the hedging instrument must offset the change in value of the underlying positions by between 80% and 125%.

Given that linear hedging is used, the hedges are unlikely to be ineffective. In the event of an over-hedged position, the excess portion of the derivative financial instrument is treated as a trading portfolio asset and recorded under “Net trading income and fair-value adjustments.”

9. Significant events and events taking place after the closing date

9.1 Significant events

The following significant event is worth noting:

As well as legal proceedings brought by the trustee of the Fairfield Sentry feeder fund against Banque Piguet & Cie SA (now Piguet Galland & Cie SA) and BCV in the USA in August 2010, the trustee for Bernard L. Madoff Investment Securities LLC (BLMIS) filed another claim in the USA on 6 June 2012 against BCV and other financial institutions in Switzerland and abroad for USD 9.7m with regard to investors that redeemed their shares in Madoff funds via BCV. The Madoff trustee is seeking to recover funds transferred by BLMIS to the Fairfield Sentry feeder fund from investors who had received refunds in the two years prior to BLMIS' bankruptcy. As both these legal actions overlap, there is no additional financial or legal risk. Consequently, and as stated in previous annual reports, no provision has been set aside except to cover BCV's defense costs.

9.2 Events taking place after the closing date

To the Group's knowledge, there was no event liable to have a material influence on the Group's financial statements as of 9 March 2017, when the writing of this annual report was completed.

10. Notes to the consolidated balance sheet

10.1 Repurchase and reverse repurchase agreements (in CHF millions)

| | 31 / 12 / 16 | 31 / 12 / 15 |
|--|--------------|--------------|
| Book value of claims arising from cash collateral pledged in connection with securities borrowing or reverse repurchase agreements ¹⁾ | 306 | 280 |
| Book value of liabilities arising from cash collateral received in connection with securities lending or repurchase agreements ¹⁾ | 1 791 | 1 738 |
| Book value of securities held for own account, lent or transferred as collateral in connection with securities borrowing or repurchase agreements | 1 653 | 1 647 |
| <i>of which those that can be sold or repledged without restriction</i> | 1 653 | 1 647 |
| Fair value of securities received as collateral in connection with securities lending and those received in connection with securities borrowing and under reverse repurchase agreements, which can be sold or repledged without restriction | 339 | 311 |
| <i>of which securities repledged as collateral</i> | 0 | 0 |
| <i>of which sold securities</i> | 0 | 0 |

¹⁾ Before netting agreements

10.2 Risk mitigants for loans and off-balance-sheet transactions

Impaired loans (in CHF millions)

| | | Type of risk mitigant | | | Total |
|---|---------------------|-----------------------|--------------|--------------|---------------|
| | | Mortgage | Other | Unsecured | |
| Loans and advances to customers | | 453 | 1 402 | 3 032 | 4 886 |
| Mortgages | | 25 045 | | | 25 045 |
| <i>Residential real estate</i> | | 21 044 | | | 21 044 |
| <i>Office and business premises</i> | | 2 682 | | | 2 682 |
| <i>Commercial and industrial property</i> | | 1 304 | | | 1 304 |
| <i>Other</i> | | 15 | | | 15 |
| Loans (before impairment charges/reversals) | 31 / 12 / 16 | 25 498 | 1 402 | 3 032 | 29 931 |
| | 31 / 12 / 15 | 24 971 | 1 438 | 3 126 | 29 535 |
| Loans (after impairment charges/reversals) | 31 / 12 / 16 | 25 489 | 1 402 | 2 958 | 29 849 |
| | 31 / 12 / 15 | 24 960 | 1 438 | 3 059 | 29 457 |
| Contingent liabilities | | 6 | 447 | 1 120 | 1 573 |
| Irrevocable commitments | | 269 | | 992 | 1 261 |
| Commitments relating to calls on shares and other equity securities | | | | 178 | 178 |
| Confirmed credits | | | | 77 | 77 |
| Off-balance-sheet transactions | 31 / 12 / 16 | 275 | 447 | 2 367 | 3 089 |
| | 31 / 12 / 15 | 210 | 319 | 1 824 | 2 353 |

| | | Gross receivables | Realization value of risk mitigants | Net receivables | Individual impairment charge/reversal |
|-----------------------|---------------------|-------------------|-------------------------------------|-----------------|---------------------------------------|
| Impaired loans | 31 / 12 / 16 | 227 | - 129 | 97 | 79 |
| | 31 / 12 / 15 | 208 | - 117 | 91 | 73 |
| Change (absolute) | | 19 | 12 | 6 | 6 |
| Change (as %) | | 9 | 10 | 7 | 8 |

10.3 Trading portfolio assets and liabilities

Other financial assets and liabilities at fair value (in CHF millions)

| Assets | 31 / 12 / 16 | 31 / 12 / 15 |
|--|--------------|--------------|
| Debt securities | 40 | 28 |
| <i>of which listed</i> | 40 | 28 |
| Equity securities | 1 | 2 |
| Commodities and precious metals | 112 | 125 |
| Trading portfolio assets | 153 | 155 |
| Debt securities | 126 | 167 |
| Structured products | 0 | 0 |
| Other | 504 | 414 |
| Other financial assets at fair value | 630 | 581 |
| Total | 783 | 736 |
| <i>of which determined using a valuation model</i> | 0 | 0 |
| <i>of which securities eligible for repurchase agreements in accordance with liquidity regulations</i> | 36 | 21 |

| Liabilities | 31 / 12 / 16 | 31 / 12 / 15 |
|--|--------------|--------------|
| Trading portfolio liabilities | 0 | 0 |
| Debt securities | 0 | 0 |
| Structured products | 771 | 666 |
| Other | 0 | 0 |
| Other financial liabilities at fair value | 771 | 666 |
| Total | 771 | 666 |
| <i>of which determined using a valuation model</i> | 69 | 75 |

10.5 Financial investments (in CHF millions)

| | 31 / 12 / 16 | | 31 / 12 / 15 | |
|--|--------------|--------------|--------------|--------------|
| | Book value | Fair value | Book value | Fair value |
| Debt securities | 3 179 | 3 329 | 3 083 | 3 246 |
| <i>of which securities intended to be held until maturity</i> | 3 161 | 3 311 | 3 059 | 3 221 |
| <i>of which securities available for sale</i> | 18 | 18 | 24 | 25 |
| Equity securities | 28 | 78 | 29 | 70 |
| <i>of which significant holdings (minimum of 10% of capital or voting rights)</i> | 4 | 4 | 4 | 4 |
| Available-for-sale real estate | 27 | 28 | 28 | 30 |
| Financial investments | 3 234 | 3 435 | 3 140 | 3 346 |
| <i>of which securities eligible for repurchase agreements in accordance with liquidity regulations</i> | 3 144 | – | 2 982 | – |

Counterparty breakdown by rating

| | AAA to AA- | A+ to A- | BBB+ to BBB- | BB+ to B- | Below B- | Not rated | Total |
|-------------------------------|------------|----------|--------------|-----------|----------|-----------|-------|
| Book value of debt securities | 2 988 | 4 | 5 | 0 | 0 | 181 | 3 179 |

The rating categories are based on Standard & Poor's ratings; they are used for the specific instruments to which the Group has subscribed. If an instrument is not rated by Standard & Poor's, the Moody's rating is used; failing that, the Fitch rating is used. Where there is no specific rating for a given instrument, the issuer's long-term rating is used, with the same order of rating agencies.

Unrated positions are in top-quality debt securities issued by Swiss cantons, municipalities and cantonal banks for which none of the three agencies provides a rating of either the instrument or the issuer.

10.6 Non-consolidated holdings (in CHF millions)

| | Cost | Accumulated impairment charges/reversals | Book value at year-end 2015 | Changes in allocation or scope | Additions | Disposals | Impairment charges/reversals | Book value at year-end 2016 | Market value 2016 |
|--|-----------|--|-----------------------------|--------------------------------|-----------|-----------|------------------------------|-----------------------------|-------------------|
| Holdings accounted for using the equity method | – | – | – | – | – | – | – | – | – |
| Other equity holdings, unlisted | 54 | –6 | 48 | – | 22 | – | –0 | 70 | – |
| Non-consolidated holdings | 54 | –6 | 48 | 0 | 22 | 0 | –0 | 70 | – |

10.7 Companies in which the Group has a significant long-term direct or indirect holding

With the exception of the parent company, none of the Group companies is listed on a stock exchange.

Fully consolidated Group companies

| Company name and headquarters | Main business | Capital in millions | 31 / 12 / 16 | | | |
|---|-----------------|------------------------|---------------------------------|---------------------------------|---|--|
| | | | % of share capital held as % | % of voting rights held as % | % of stake held directly / indirectly as % | |
| Piguet Galland & Cie SA, Yverdon-les-Bains (Switzerland) | Private bank | CHF 24.4 | 99.7 | 99.7 | 99.7 / 0 | |
| Gérifonds SA, Lausanne | Fund management | CHF 2.9 | 100 | 100 | 100 / 0 | |
| Gérifonds (Luxembourg) SA, Luxembourg | Fund management | EUR 0.1 | 100 | 100 | 0.8 / 99.2 | |
| Société pour la gestion de placements collectifs GEP SA, Lausanne | Fund management | CHF 1.5 | 100 | 100 | 100 / 0 | |

The scope of consolidation did not change relative to end-2015.

No companies are accounted for using the equity method.

Main non-consolidated holdings

| | | | | | | |
|---|--|-------------|------|------|-----------|--|
| Aduno Holding Ltd, Zurich | Purchase, sale, and management of equity holdings | CHF 25.0 | 4.8 | 4.8 | 4.8 / 0 | |
| Caleas AG, Zurich | Leasing company | CHF 0.8 | 4.7 | 4.7 | 4.7 / 0 | |
| Central mortgage-bond Institution of Swiss Cantonal Banks Ltd, Zurich | Central mortgage-bond institution | CHF 1 625.0 | 13.6 | 13.6 | 13.6 / 0 | |
| <i>of which CHF 1.3 billion unpaid</i> | | | | | | |
| newhome.ch AG, Zurich | Property listing website | CHF 0.1 | 10.7 | 10.7 | 10.7 / 0 | |
| SIX Group Ltd, Zurich | Swiss stock exchange operator and provider of payment and other services | CHF 19.5 | 2.5 | 2.5 | 2.4 / 0.1 | |
| Société vaudoise pour le logement (SVL) SA, Crissier (Switzerland) | Property developer for low-income housing | CHF 2.0 | 45.0 | 45.0 | 45 / 0 | |
| Swiss Bankers Prepaid Services Ltd, Grosshöchstetten (Switzerland) | Development and sale of prepaid cards | CHF 10.0 | 3.2 | 3.2 | 3.2 / 0 | |
| TWINT Ltd, Zurich | Swiss mobile payment system | CHF 10.2 | 4.0 | 4.0 | 4.0 / 0 | |
| VDCapital Private Equity Partners LTD, St Helier (Jersey) | Private equity firm | CHF 0.1 | 25.0 | 25.0 | 25 / 0 | |

In 2016, BCV took a 4% stake in the new company TWINT Ltd, which merges Swiss mobile payment systems Paymit and TWINT.

As the Bank's holdings in SVL and VDCapital are not material in terms of the consolidated financial statements, they are not included in the scope of consolidation. At end-2015, SVL had total assets of CHF 12 million and equity of CHF 5 million. VDCapital was liquidated in January 2017.

Main equity security positions held under “Financial investments”

| Company name and headquarters | Main business | Capital in millions | 31 / 12 / 16 | | |
|---|--|------------------------|---------------------------------|---------------------------------|--|
| | | | % of share capital held as % | % of voting rights held as % | % of stake held directly /indirectly as % |
| Banque Cantonale du Jura SA, Porrentruy (Switzerland) | Bank | CHF 42.0 | 4.8 | 4.8 | 4.84 / 0 |
| Romande Energie Holding SA, Morges (Switzerland) | Purchase, sale, and management of equity holdings in the energy sector | CHF 28.5 | 3.1 | 3.1 | 3.05 / 0 |

10.8 Tangible fixed assets (in CHF millions)

| | Cost | Accumulated depreciation and write-offs | Book value at year-end | Changes in allocation or scope | Additions | Disposals | Depreciation and write-offs | Book value at year-end |
|------------------------------|--------------|---|------------------------|--------------------------------|-----------|-------------|-----------------------------|------------------------|
| | 2015 | | | | | | | 2016 |
| Group premises | 389 | – 144 | 245 | 1 | 3 | | – 9 | 240 |
| Other real estate | 339 | – 136 | 203 | – 2 | 3 | – 24 | – 7 | 173 |
| Furniture and fixtures | 60 | – 35 | 25 | 0 | 5 | | – 8 | 22 |
| Computer programs | 159 | – 92 | 67 | | 39 | | – 39 | 67 |
| Other tangible fixed assets | 202 | – 184 | 18 | | 2 | | – 6 | 15 |
| Tangible fixed assets | 1 149 | – 591 | 558 | 0 | 52 | – 24 | – 69 | 517 |

10.9 Intangible assets (in CHF millions)

| | Cost | Accumulated amortization and impairment | Book value at year-end | Changes in allocation or scope | Additions | Disposals | Amortization and impairment | Book value at year-end |
|--------------------------|-----------|---|------------------------|--------------------------------|-----------|------------|-----------------------------|------------------------|
| | 2015 | | | | | | | 2016 |
| Goodwill | 50 | – 27 | 23 | | | – 3 | – 4 | 16 |
| Intangible assets | 50 | – 27 | 23 | 0 | 0 | – 3 | – 4 | 16 |

10.10 Other assets and liabilities (in CHF millions)

| | 31 / 12 / 16 | | 31 / 12 / 15 | |
|--------------------------------------|--------------|-------------------|--------------|-------------------|
| | Other assets | Other liabilities | Other assets | Other liabilities |
| Offset accounts | 0 | 36 | 23 | 0 |
| Indirect taxes | 21 | 9 | 10 | 13 |
| Coupons/coupons and securities due | 4 | 1 | 3 | 1 |
| Settlement accounts | 13 | 3 | 15 | 7 |
| Miscellaneous assets and liabilities | 16 | 8 | 5 | 14 |
| Other assets and liabilities | 54 | 56 | 56 | 35 |

10.11 Assets pledged or assigned as collateral for own liabilities, and assets with reservation of title (in CHF millions)

| | 31 / 12 / 16 | | 31 / 12 / 15 | |
|--|--------------------------------|----------------|--------------------------------|----------------|
| | Amount or book value of pledge | Real liability | Amount or book value of pledge | Real liability |
| Assets pledged or assigned to the Swiss National Bank | 181 | 0 | 184 | 0 |
| Mortgages pledged or assigned to Central Mortgage-Bond Institution of Swiss Cantonal Banks | 7 354 | 5 612 | 7 005 | 5 470 |
| Other | 286 | 277 | 216 | 211 |
| Total assets pledged or assigned | 7 821 | 5 889 | 7 405 | 5 681 |
| Assets with reservation of title | 0 | 0 | 0 | 0 |

10.12 Commitments relating to own occupational pension funds

BCV shares held by own occupational pension funds (in CHF millions)

| | 31 / 12 / 16 | 31 / 12 / 15 |
|-------------------|--------------|--------------|
| Customer deposits | 151 | 58 |
| Bonds | 0 | 11 |
| Other liabilities | 0 | 0 |
| Total | 151 | 69 |

BCV's own occupational pension funds held no BCV shares at 31 December 2016.

10.13 Economic situation of own occupational pension funds (in CHF millions)

There were no employer contribution reserves at end-2016 or end-2015.

| Economic benefit/liability and pension expenses | Surplus / deficit | Economic benefit/liability | | | Contributions adjusted for the period 2016 | Pension expenses included in "Personnel costs" | |
|--|----------------------|----------------------------|--------------|----------|---|---|-------------|
| | | 31 / 12 / 16 | 31 / 12 / 15 | Change | | 2016 | 2015 |
| Employer-financed pension funds: "Fonds de prévoyance en faveur du personnel de la BCV" ¹⁾ | 44.0 | 0 | 0 | 0 | 0.0 | 0.0 | 0.0 |
| Pension funds with no surplus or defi- cit: "Caisse de pensions de la BCV" | | 0 | 0 | 0 | 38.0 | 38.0 | 35.1 |
| Pension funds with surpluses: "Fondation de prévoyance complé- mentaire en faveur de l'encadrement supérieur de la BCV" | 0.6 | 0 | 0 | 0 | 1.4 | 1.4 | 2.0 |
| Total | 44.6 | 0 | 0 | 0 | 39.4 | 39.4 | 37.1 |

¹⁾ Since the intention is not to apply the surpluses to reduce or refund the employer's contributions, or for the employer to use them for any economic purpose other than regulatory benefits, there is no identifiable economic benefit to be recognized on the balance sheet

The surplus or deficit of a pension fund is based on its unaudited interim accounts at 30 September 2016.

Pension funds

BCV Group employees are members of the "Caisse de pensions de la Banque Cantonale Vaudoise (CP BCV)." Its purpose is to insure its members against the economic consequences of retirement, disability and death by guaranteeing benefits in accordance with the terms of the pension-fund regulations. It is a provider of the compulsory insurance introduced under the Federal Act on Occupational Retirement, Survivors' and Disability Pension Plans (LPP), and provides coverage in excess of the minimum LPP requirements.

Senior executives insured with the CP BCV are also members of the "Fondation de prévoyance complémentaire de la Banque Cantonale Vaudoise," the purpose of which is to insure its members against the economic consequences of retirement, disability and death by guaranteeing benefits in accordance with the terms of the pension-fund regulations.

The "Fonds de prévoyance en faveur du personnel de la BCV" is an employer-operated fund that assists BCV employees in dealing with the economic consequences of old age, disability, illness and early retirement.

10.14 Issued structured products (in CHF millions)

| Underlying risk of embedded derivative | Carrying value | | | | Total |
|--|---|---|------------------------------|-------------------------|--------------|
| | Single treatment | | Separate treatment | | |
| | Recognized in trading portfolio liabilities | Recognized in other financial liabilities at fair value | Value of the host instrument | Value of the derivative | |
| Interest-rate instruments | – | 13 | 0 | 0 | 13 |
| Equity securities | – | 707 | 933 | – 46 | 1 595 |
| Foreign currencies | – | 50 | 33 | – 0 | 83 |
| Commodities and precious metals | – | 0 | 0 | 0 | 0 |
| Total | 31 / 12 / 16 | 771 | 966 | – 46 | 1 691 |
| | 31 / 12 / 15 | – | 1 016 | – 73 | 1 609 |

All structured products issued by the Bank have a debenture component.

Single accounting treatment

Structured products without an interest rate component, i.e., participation structured products (representing a fraction of an equity basket) and yield-enhancement structured products, issued by the Bank are each treated as a single position. They are recognized under “Other financial liabilities at fair value,” and their fair value is based on a quoted market price or a valuation model. Subsequent revaluations are recognized under “Net trading income and fair-value adjustments.”

Separate accounting treatment

Yield-enhancement, participation and capital-protection structured products issued by the Bank and containing an

interest rate component are each treated as two separate positions.

For these structured products, the host instrument and the embedded derivative(s) are treated separately. The host instrument is recorded under “Bonds” at nominal value as a debt issued by the Bank. Embedded derivatives are carried as either positive or negative mark-to-market values. Subsequent variations are recognized under “Net trading income and fair-value adjustments.”

Interest accrued in the interest-rate component is recorded under “Interest expense” using the accrual method.

10.15 Bonds and mortgage-backed bonds (in CHF millions)

| Rate | Year of issue | Nominal value | Maturity | Group-held | 31 / 12 / 16 Amount outstanding | 31 / 12 / 15 |
|---|---------------|---------------|----------|------------|---------------------------------------|--------------|
| 2.500% | 2010 | 200 | 25.03.20 | 40 | 160 | |
| 1.625% | 2011 | 125 | 30.11.26 | 30 | 95 | |
| 1.500% | 2014 | 135 | 28.03.24 | 0 | 135 | |
| 0.500% | 2016 | 150 | 13.12.28 | 2 | 148 | |
| 0.400% | 2016 | 150 | 07.04.31 | 0 | 150 | |
| Bond issues by BCV Lausanne¹⁾ | | 760 | | 72 | 688 | 387 |
| <i>of which subordinated bonds</i> | | 0 | | 0 | 0 | 0 |
| Structured products issued by BCV Lausanne or the Guernsey branch (value of the host instrument) | | | | | 966 | 1016 |
| Central mortgage-bond Institution of Swiss Cantonal Banks | | | | | 5612 | 5470 |
| Long-term borrowings | | | | | 7267 | 6873 |

¹⁾ None of these issues can be called in for redemption before the maturity date

Long-term borrowings by maturity

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022-2031 | Total | Average rate |
|--|-------------|------------|------------|------------|------------|-------------|-------------|-----------------|
| Bond issues | | | | 160 | | 528 | 688 | 1.4% |
| Structured products | 678 | 188 | 71 | 22 | 7 | | 966 | -0.5% |
| Central mortgage-bond Institution of Swiss Cantonal Banks | 412 | 307 | 539 | 184 | 474 | 3696 | 5612 | 1.6% |
| Total | 1090 | 495 | 610 | 366 | 481 | 4224 | 7267 | |

| | Status at year-end 2015 | New issues | Redemptions | Net change in own securities | Status at year-end 2016 |
|---|-------------------------------|-------------|--------------|---------------------------------|-------------------------------|
| Bond issues | 387 | 300 | 0 | 2 | 688 |
| Structured products | 1016 | 823 | -872 | -1 | 966 |
| Central mortgage-bond Institution of Swiss Cantonal Banks | 5470 | 400 | -258 | - | 5612 |
| Total | 6873 | 1523 | -1130 | 0 | 7267 |

10.16 Provisions

Reserves for general banking risks (in CHF millions)

| | Status at year-end | Used as allocated | Changes in scope of consolidation | Currency translation differences | Recoveries, overdue interest | New provisions charged to income statement | Releases credited to income statement | Status at year-end |
|--|-----------------------|----------------------|---|--|------------------------------------|--|--|-----------------------|
| | 2015 | | | | | | | 2016 |
| Provisions for deferred taxes | 1 | | | | | 2 | - 1 | 2 |
| Provisions for credit risk | 2 | | | | | | - 1 | 1 |
| Other provisions | 15 | - 7 | | - 0 | 4 | 4 | - 1 | 13 |
| Total provisions | 18 | - 7 | 0 | - 0 | 4 | 5 | - 3 | 16 |
| Reserves for general banking risks¹⁾ | 704 | | | | | | - 3 | 701 |
| Provisions for credit risk and country risk | 78 | - 11 | 0 | 0 | 11 | 21 | - 16 | 82 |
| <i>of which provisions for impaired loans</i> | 73 | - 11 | | | 11 | 21 | - 15 | 79 |
| <i>of which provisions for latent risks</i> | 5 | | | | | | - 1 | 4 |

¹⁾ Reserves for general banking risks are taxable

10.17 Stock options and shares granted to members of the Board of Directors, Executive Board members and other employees
Employee share-ownership plans

| | 2016 | | 2015 | |
|-----------------------------------|----------------------|-------------------|----------------------|-------------------|
| | Shares (in units) | Value (in CHF) | Shares (in units) | Value (in CHF) |
| Members of the Board of Directors | 132 | 90 667 | 112 | 72 900 |
| Executive Board members | 3 584 | 1 897 890 | 4 522 | 2 243 820 |
| Other employees | 29 209 | 10 175 602 | 35 330 | 12 867 714 |
| Total | 32 925 | 12 164 159 | 39 964 | 15 184 434 |

No stock options have been granted to members of the Board of Directors, Executive Board members or other employees.

Employee share ownership
Annual performance-based compensation

The Chairman of the Board of Directors receives a portion of his fixed salary in shares with a lock-up period of five to ten years.

For Executive Board members and department heads, 30% of their annual performance-based compensation must be taken in BCV shares with a lock-up period of five to ten years.

Other employees receiving annual performance-based compensation of CHF 21,000 or more may opt for full payment in cash, or 70% in cash and 30% in BCV shares with a lock-up period of 3 years. In the latter case, BCV increases the portion of shares by 30%.

The Chairman of the Board of Directors will receive his shares at the end of April 2017. The number of shares allocated will be calculated based on the closing market price on 24 March 2017, rounded up to the nearest whole number.

Executive Board members are allocated their shares subject to approval at the Shareholders' Meeting. The number of shares allocated will be calculated based on the closing market price on 8 May 2017, rounded up to the nearest whole number.

Other employees will receive their shares at the end

of April 2017. The number of shares allocated will be calculated based on the closing market price on 24 March 2017, rounded up to the nearest whole number. These employees have until 6 April 2017 to make their decision. As their decision was not known at the time this report was published, the amount shown in the above table corresponds to the maximum amount payable in the form of shares.

The market prices used to calculate the number of shares will be those on 24 March 2017 and 8 May 2017 (see above), so they were not known at the time this report was published. As a result, the number of shares was calculated based on the closing market price on 9 March 2017, the date of the Board of Directors' final decision on this compensation.

Share-ownership plan

The Executive Board and other Group employees, with the exception of employees of Piguët Galland & Cie SA, were given the opportunity to subscribe to the share-ownership plan in April 2016 on the following terms:

- The number of shares that may be purchased is determined by the level of responsibility inherent in the employee's position.
- The subscription period ran from 10–22 March 2016.
- The subscription price was set at CHF 495 per share, and the market price used was CHF 653 (closing price on 10 March, the first day of the subscription period).

The amount shown in the above table corresponds to the number of shares subscribed multiplied by CHF 158, which is the difference between the market price of CHF 653 and the subscription price of CHF 495.

Long-term performance-based compensation

At the beginning of each three-year share-ownership plan, participants are informed of the number of shares that will be allocated if all objectives are met in full. At the end of each plan, the Bank informs participants of the extent to which objectives have been met based on the Bank's financial results and strategic and qualitative performance. The number of shares initially allocated is multiplied by the level of attainment of the objectives in order to determine the number of shares allocated to each participant.

The amounts shown in the table on the previous page correspond to the expense recorded in 2016 for the various plans in progress.

Free shares

The Bank awards three BCV shares to trainees and university interns who successfully complete their training and are then hired by BCV.

The number allocated and their value, based on the market price on the last business day of the month before the shares are awarded, are also shown in the table.

10.18 Receivables and commitments with respect to related parties (in CHF millions)

| | 31 / 12 / 16 | | 31 / 12 / 15 | |
|--|--------------|------------|--------------|------------|
| | Receivable | Commitment | Receivable | Commitment |
| Canton of Vaud - significant shareholder | 7 | 2243 | 5 | 1528 |
| Affiliated companies | 116 | 471 | 36 | 203 |
| Governing bodies | 33 | 12 | 33 | 21 |

Corporations organized under public law in Vaud Canton and public-private entities in which Vaud Canton has a qualified holding are considered affiliated companies.

Transactions with related parties were conducted on market terms.

10.19 Treasury shares

| Number of shares (in units) | Average transaction price | Total | Treasury shares |
|--|---------------------------|------------------|-----------------|
| Status at 1 January 2016 | | 8 606 190 | 33 105 |
| <i>of which shares reserved for long-term performance-based compensation</i> | | | 19 977 |
| Purchases | 640 | | 53 315 |
| Sales | 613 | | - 54 176 |
| Status at 31 December 2016 | | 8 606 190 | 32 244 |
| <i>of which shares reserved for long-term performance-based compensation</i> | | | 16 076 |

Treasury shares were traded at market prices. The proceeds of the sale of treasury shares, totaling CHF 0.4m, were recognized under "Capital reserve."

10.20 Maturity structure of financial instruments (in CHF millions)

| | Sight | Callable | Maturity | | | | Fixed assets | Total | |
|--|--------------|---------------|----------------|--------------|---------------------------|---------------|---------------|-----------|---------------|
| | | | up to 3 months | 12 months | 3 to 12 months to 5 years | over 5 years | | | |
| Cash and cash equivalents | 7 496 | | | | | | | 7 496 | |
| Due from banks | 521 | | 517 | 335 | | | | 1 373 | |
| Reverse repurchase agreements | | 306 | | | | | | 306 | |
| Loans and advances to customers | 81 | 1 437 | 1 503 | 379 | 690 | 723 | | 4 812 | |
| Mortgage loans | 673 | 433 | 2 795 | 2 314 | 10 802 | 8 019 | | 25 037 | |
| Trading portfolio assets | 153 | | | | | | | 153 | |
| Positive mark-to-market values of derivative financial instruments | 281 | | | | | | | 281 | |
| Other financial assets at fair value | 630 | | | | | | | 630 | |
| Financial investments | 30 | | 105 | 239 | 1 322 | 1 511 | 27 | 3 234 | |
| Current assets | | | | | | | | | |
| | 31 / 12 / 16 | 9 865 | 2 175 | 4 920 | 3 267 | 12 813 | 10 254 | 27 | 43 322 |
| | 31 / 12 / 15 | 9 681 | 2 179 | 5 108 | 3 453 | 11 833 | 10 345 | 28 | 42 627 |
| Due to banks | 787 | | 280 | 3 | | | | 1 070 | |
| Repurchase agreements | | | 1 655 | 136 | | | | 1 791 | |
| Customer deposits | 11 479 | 16 588 | 1 030 | 60 | 22 | 65 | | 29 245 | |
| Negative mark-to-market values of derivative financial instruments | 244 | | | | | | | 244 | |
| Other financial liabilities at fair value | 771 | | | | | | | 771 | |
| Medium-term notes | | | 2 | 5 | 13 | 2 | | 21 | |
| Bonds and mortgage-backed bonds | | | 400 | 690 | 1 953 | 4 224 | | 7 267 | |
| Borrowed funds | | | | | | | | | |
| | 31 / 12 / 16 | 13 282 | 16 588 | 3 367 | 894 | 1 988 | 4 291 | | 40 410 |
| | 31 / 12 / 15 | 13 340 | 16 800 | 2 475 | 916 | 2 152 | 4 066 | | 39 749 |

10.21 Breakdown of assets and liabilities by Swiss and foreign domicile (in CHF millions)

| | 31 / 12 / 16 | | 31 / 12 / 15 | |
|--|---------------|--------------|---------------|--------------|
| | Swiss | Foreign | Swiss | Foreign |
| Cash and cash equivalents | 7 487 | 8 | 6 854 | 7 |
| Due from banks | 505 | 869 | 867 | 943 |
| Reverse repurchase agreements | | 306 | | 280 |
| Loans and advances to customers | 4 194 | 618 | 4 312 | 623 |
| Mortgage loans | 25 037 | 0 | 24 522 | |
| Trading portfolio assets | 153 | | 153 | 2 |
| Positive mark-to-market values of derivative financial instruments | 195 | 86 | 287 | 56 |
| Other financial assets at fair value | 219 | 411 | 159 | 422 |
| Financial investments | 2 365 | 869 | 2 260 | 880 |
| Accrued income and prepaid expenses | 104 | 2 | 104 | 2 |
| Non-consolidated holdings | 70 | 1 | 48 | |
| Tangible fixed assets | 517 | | 558 | |
| Intangible assets | 16 | | 23 | |
| Other assets | 51 | 3 | 56 | |
| Assets | 40 912 | 3 174 | 40 203 | 3 215 |
| Total as % | 93 | 7 | 93 | 7 |
| Due to banks | 815 | 255 | 797 | 427 |
| Repurchase agreements | 1 556 | 235 | 1 738 | |
| Customer deposits | 27 065 | 2 179 | 26 462 | 2 415 |
| Negative mark-to-market values of derivative financial instruments | 129 | 116 | 151 | 180 |
| Other financial liabilities at fair value | 621 | 150 | 440 | 226 |
| Medium-term notes | 21 | | 40 | |
| Bonds and mortgage-backed bonds | 7 000 | 266 | 6 553 | 320 |
| Accrued expenses and deferred income | 182 | 2 | 217 | 2 |
| Other liabilities | 56 | | 32 | 3 |
| Provisions | 16 | | 18 | |
| Reserves for general banking risks | 701 | | 704 | |
| Share capital | 86 | | 86 | |
| Capital reserve | 207 | | 292 | |
| Retained earnings | 2 137 | | 1 999 | |
| Currency translation reserve | -2 | | -2 | |
| Treasury shares | -19 | | -18 | |
| Minority interests in equity | 0 | | 0 | |
| Net profit | 310 | | 336 | |
| Total liabilities and shareholders' equity | 40 882 | 3 203 | 39 845 | 3 573 |
| Total as % | 93 | 7 | 92 | 8 |

10.22 Breakdown of assets by country/country group based on domicile (in CHF millions)

| | 31 / 12 / 16 | | 31 / 12 / 15 | |
|------------------------------|----------------|---------------|----------------|---------------|
| | Absolute value | as % of total | Absolute value | as % of total |
| Europe | 2 323 | 5 | 2 413 | 6 |
| United Kingdom | 594 | 1 | 476 | 1 |
| France | 414 | 1 | 439 | 1 |
| Luxembourg | 305 | 1 | 300 | 1 |
| Germany | 260 | 1 | 411 | 1 |
| Netherlands | 209 | 0 | 251 | 1 |
| Austria | 176 | 0 | 175 | 0 |
| Other | 364 | 1 | 361 | 1 |
| Asia | 437 | 1 | 374 | 1 |
| Latin America, the Caribbean | 99 | 0 | 146 | 0 |
| United States, Canada | 206 | 0 | 105 | 0 |
| Other | 108 | 0 | 177 | 0 |
| Foreign assets | 3 174 | 7 | 3 215 | 7 |
| Switzerland | 40 912 | 93 | 40 203 | 93 |
| Assets | 44 085 | 100 | 43 418 | 100 |

10.23 Breakdown of assets by solvency of the country group in which the risk is domiciled (in CHF millions)

| Internal country rating | Standard & Poor's rating | 31 / 12 / 16 | | 31 / 12 / 15 | |
|-----------------------------|--------------------------|----------------|---------------|----------------|---------------|
| | | Absolute value | as % of total | Absolute value | as % of total |
| 1 | AAA to AA- | 2 641 | 81 | 2 622 | 80 |
| 2 | A+ to A- | 175 | 5 | 270 | 8 |
| 3 | BBB+ to BBB- | 88 | 3 | 108 | 3 |
| 4 | BB+ to BB- | 143 | 4 | 134 | 4 |
| 5 to 7 | B+ to B- | 114 | 3 | 38 | 1 |
| 8 | CCC+ to C | 54 | 2 | 68 | 2 |
| Not rated | Not rated | 29 | 1 | 53 | 2 |
| Net foreign exposure | | 3 243 | 100 | 3 293 | 100 |

Rating categories are based on Standard & Poor's ratings.

10.24 Breakdown of assets and liabilities by currency (in CHF millions)

| | CHF | EUR | USD | Other | Total |
|---|---------------------|---------------|--------------|--------------|---------------|
| Cash and cash equivalents | 7 453 | 38 | 3 | 2 | 7 496 |
| Due from banks | 336 | 313 | 575 | 150 | 1 373 |
| Reverse repurchase agreements | | 214 | 91 | | 306 |
| Loans and advances to customers | 3 203 | 355 | 1 243 | 11 | 4 812 |
| Mortgage loans | 25 035 | 2 | | | 25 037 |
| Trading portfolio assets | 153 | | | | 153 |
| Positive mark-to-market values of derivative financial instruments | 237 | 3 | 40 | 1 | 281 |
| Other financial assets at fair value | 223 | 161 | 186 | 60 | 630 |
| Financial investments | 2 819 | 415 | 0 | 0 | 3 234 |
| Accrued income and prepaid expenses | 99 | 7 | 1 | 0 | 107 |
| Non-consolidated holdings | 70 | | | | 70 |
| Tangible fixed assets | 517 | | | | 517 |
| Intangible assets | 16 | | | | 16 |
| Other assets | 49 | 1 | 3 | 1 | 54 |
| Positions carried as assets | 40 209 | 1 509 | 2 143 | 224 | 44 085 |
| Delivery claims arising from spot and forward transactions and options | 11 281 | 6 147 | 12 032 | 2 640 | 32 100 |
| Assets | 31 / 12 / 16 | 51 491 | 7 656 | 2 863 | 76 185 |
| | 31 / 12 / 15 | 55 354 | 8 392 | 2 731 | 84 020 |
| Due to banks | 334 | 301 | 292 | 143 | 1 070 |
| Repurchase agreements | 140 | 311 | 1 193 | 147 | 1 791 |
| Customer deposits | 25 426 | 1 422 | 2 040 | 357 | 29 245 |
| Negative mark-to-market values of derivative financial instruments | 199 | 32 | 14 | –0 | 244 |
| Other financial liabilities at fair value | 416 | 183 | 171 | 1 | 771 |
| Medium-term notes | 21 | | | | 21 |
| Bonds and mortgage-backed bonds | 7 028 | 134 | 96 | 8 | 7 267 |
| Accrued expenses and deferred income | 170 | 7 | 6 | 0 | 184 |
| Other liabilities | 35 | 9 | 11 | 2 | 56 |
| Provisions | 15 | 1 | 0 | | 16 |
| Reserves for general banking risks | 701 | | | | 701 |
| Share capital | 86 | | | | 86 |
| Capital reserve | 207 | | | | 207 |
| Retained earnings | 2 137 | | | | 2 137 |
| Currency translation reserve | –2 | | | | –2 |
| Treasury shares | –19 | | | | –19 |
| Minority interests in equity | 0 | | | | 0 |
| Net profit | 310 | | | | 310 |
| Positions carried as liabilities | 37 204 | 2 399 | 3 824 | 658 | 44 085 |
| Delivery commitments arising from spot and forward transactions and options | 14 353 | 5 285 | 10 301 | 2 145 | 32 084 |
| Total liabilities and shareholders' equity | 31 / 12 / 16 | 51 557 | 7 684 | 2 803 | 76 170 |
| | 31 / 12 / 15 | 55 479 | 8 349 | 2 688 | 83 974 |
| Net position by currency | 31 / 12 / 16 | –67 | –28 | 50 | 16 |
| | 31 / 12 / 15 | –125 | 43 | 85 | 46 |

11. Notes to off-balance-sheet transactions

11.1 Contingent liabilities

Contingent receivables (in CHF millions)

| | 31 / 12 / 16 | 31 / 12 / 15 | Change absolute | Change as % |
|------------------------------------|--------------|--------------|--------------------|----------------|
| Irrevocable and similar guarantees | 1 098 | 775 | 323 | 42 |
| Other guarantees | 475 | 414 | 61 | 15 |
| Contingent liabilities | 1 573 | 1 189 | 384 | 32 |
| Contingent receivables | 0 | 0 | 0 | 0 |

11.2 Confirmed credits (in CHF millions)

| | 31 / 12 / 16 | 31 / 12 / 15 | Change absolute | Change as % |
|--|--------------|--------------|--------------------|----------------|
| Commitments arising from deferred payments | 77 | 53 | 24 | 44 |
| Confirmed credits | 77 | 53 | 24 | 44 |

11.3 Fiduciary transactions (in CHF millions)

| | 31 / 12 / 16 | 31 / 12 / 15 | Change absolute | Change as % |
|--|--------------|--------------|--------------------|----------------|
| Fiduciary investments with third parties | 310 | 309 | 1 | 0 |
| Fiduciary loans | 1 | 1 | 0 | 1 |
| Fiduciary transactions | 311 | 310 | 1 | 0 |

11.4 Assets under management (in CHF millions)

| Breakdown | 31 / 12 / 16 | 31 / 12 / 15 | Change absolute | Change as % |
|---|---------------|---------------|--------------------|----------------|
| Assets held by collective investment vehicles under own management | 23 639 | 28 818 | - 5 179 | - 18 |
| Assets under discretionary management agreements | 14 184 | 13 108 | 1 076 | 8 |
| Other assets under management | 47 559 | 46 046 | 1 513 | 3 |
| Total assets under management (incl. double-counted) | 85 382 | 87 972 | - 2 590 | - 3 |
| <i>of which double-counted</i> | <i>6 932</i> | <i>9 054</i> | <i>- 2 122</i> | <i>- 23</i> |

| Change | 31 / 12 / 16 | 31 / 12 / 15 | Change absolute | Change as % |
|---|---------------|---------------|--------------------|----------------|
| Initial total assets under management (incl. double-counted) | 87 972 | 86 382 | 1 590 | 2 |
| Net fund inflows/outflows | 2 349 | 2 502 | - 153 | - 6 |
| Changes in prices, interest, dividends and exchange rates | 1 641 | - 912 | 2 553 | n/a |
| Other changes ¹⁾ | - 6 580 | 0 | - 6 580 | - |
| Final total assets under management (incl. double-counted) | 85 382 | 87 972 | - 2 590 | - 3 |

¹⁾ First step in the transfer of Swisscanto assets, following the 2015 sale of BCV's stake to ZKB

As BCV Group is not required to disclose these figures, they are provided voluntarily and only on a consolidated basis.

Definitions

All customer assets held or managed for investment purposes are included under "Assets under management." As defined in the new Swiss accounting rules for banks, assets under management mainly comprise customer deposits in the form of savings and investments and term accounts, together with fiduciary investments and all duly valued assets in custody accounts. Assets held for investment purposes by institutional investors, companies and individual customers, along with investment fund assets, are included unless they are custody-only assets for which the Group provides only safekeeping and corporate-action services. Deposits for which additional services

are provided (such as investment management, advice and fund administration) also come under "Assets under management."

Net new money

Net new money, which is determined in accordance with the same scope as assets under management, is the sum of inflows from new customers, outflows from departing customers, and movements in the assets of existing customers during the financial year. Changes in assets under management resulting from price fluctuations, exchange-rate movements, interest and dividend payments and commissions and fees are not part of the net new money calculation. Nor does it include changes in assets under management resulting from the acquisition, disposal or closure of companies or complete business lines.

12. Notes to the consolidated income statement

12.1 Net interest income before loan impairment charges/reversals (in CHF millions)

| | 2016 | 2015 | Change absolute | Change as % |
|---|--------------|--------------|--------------------|----------------|
| Banks | 0.4 | 0.7 | -0.3 | -45 |
| Customers | 594.4 | 625.2 | -30.8 | -5 |
| Interest and dividends on financial investments | 40.3 | 47.4 | -7.1 | -15 |
| Other interest income | 4.2 | 2.8 | 1.4 | 49 |
| Total interest income | 639.3 | 676.1 | -36.8 | -5 |
| Banks | 5.7 | 2.8 | 2.9 | 103 |
| Customers | 10.9 | 21.0 | -10.1 | -48 |
| Medium-term notes and bonds | 98.4 | 109.1 | -10.7 | -10 |
| Other interest expense | 41.7 | 54.0 | -12.3 | -23 |
| Total interest expense | 156.7 | 186.9 | -30.2 | -16 |
| Net interest income before loan impairment charges/reversals | 482.5 | 489.2 | -6.7 | -1 |

Negative interest paid by the Bank on its assets is deducted from interest income, while negative interest paid to the Bank on its liabilities is deducted from interest expense.

As these positions – and those relating to the refinancing of trading positions – are not material, they are not disclosed separately.

12.2 Fees and commissions on securities and investment transactions (in CHF millions)

| | | | | |
|----------------------------|--------------|--------------|--------------|-----------|
| Securities administration | 42.1 | 47.0 | -4.9 | -10 |
| Brokerage | 41.4 | 54.6 | -13.2 | -24 |
| Income from new issues | 9.5 | 10.8 | -1.3 | -12 |
| Management fees | 44.4 | 42.6 | 1.8 | 4 |
| Investment-fund operations | 101.1 | 104.6 | -3.5 | -3 |
| Other | 3.0 | 3.7 | -0.7 | -19 |
| Total | 241.5 | 263.3 | -21.8 | -8 |

12.3 Fees and commissions on other services (in CHF millions)

| | | | | |
|---|-------------|-------------|-------------|-----------|
| Payment cards, ATMs, transfers and checks | 20.6 | 27.0 | -6.4 | -24 |
| Administrative services for institutional clients, and statements | 17.7 | 19.1 | -1.4 | -7 |
| Account management fees | 21.2 | 17.5 | 3.7 | 21 |
| Document collection fees and bancassurance | 9.4 | 9.5 | -0.1 | -1 |
| Safe rentals, numbered accounts and mail holding services | 6.4 | 7.8 | -1.4 | -18 |
| Total | 75.2 | 80.9 | -5.7 | -7 |

12.4 Net trading income and fair-value adjustments (in CHF millions)

| | 2016 | 2015 | Change absolute | Change as % |
|--|--------------|--------------|--------------------|----------------|
| Breakdown by business sector | | | | |
| Retail Banking | 18.6 | 21.5 | - 2.9 | - 13 |
| Corporate Banking | 9.8 | 10.1 | - 0.3 | - 3 |
| Wealth Management | 21.6 | 23.9 | - 2.3 | - 10 |
| Trading | 59.3 | 62.6 | - 3.3 | - 5 |
| Corporate Center | 29.9 | 32.4 | - 2.5 | - 8 |
| Total | 139.2 | 150.5 | - 11.3 | - 7 |
| Trading income and fair-value adjustments | | | | |
| Fixed-income instruments (including funds) | 3.2 | 1.5 | 1.7 | 110 |
| Equity securities (including funds) | 20.6 | 21.1 | - 0.5 | - 2 |
| Currencies and precious metals | 122.0 | 134.5 | - 12.5 | - 9 |
| Total trading income and fair-value adjustments | 145.8 | 157.1 | - 11.3 | - 7 |
| <i>of which fair-value adjustments</i> | 20.3 | 20.7 | - 0.4 | - 2 |
| <i>of which fair-value adjustments on assets</i> | 47.3 | - 9.8 | 57.1 | n/a |
| <i>of which fair-value adjustments on liabilities</i> | - 26.9 | 30.5 | - 57.4 | n/a |
| Trading fee expense | - 6.5 | - 6.6 | - 0.1 | - 1 |
| Net trading income and fair-value adjustments | 139.2 | 150.5 | - 11.3 | - 7 |

12.5 Personnel costs (in CHF millions)

| | | | | |
|--|--------------|--------------|------------|----------|
| Fixed and variable compensation | 256.9 | 258.4 | - 1.5 | - 1 |
| <i>of which charges related to share-based compensation and other variable compensation (including the portion paid in cash)</i> | 34.6 | 46.6 | - 12.0 | - 26 |
| Employee benefits | 25.5 | 25.2 | 0.3 | 1 |
| Contributions to staff pension funds | 39.4 | 37.1 | 2.3 | 6 |
| Other personnel expenses | 16.2 | 16.5 | - 0.3 | - 2 |
| Total | 338.0 | 337.2 | 0.8 | 0 |

12.6 Other operating expenses (in CHF millions)

| | | | | |
|--|--------------|--------------|--------------|------------|
| Premises | 23.1 | 23.3 | - 0.2 | - 1 |
| IT | 74.4 | 73.6 | 0.8 | 1 |
| Machinery, furniture, vehicles, etc. | 3.8 | 3.7 | 0.1 | 3 |
| Office supplies | 1.3 | 1.3 | - 0.0 | - 3 |
| Telecommunications and shipping | 8.0 | 8.6 | - 0.6 | - 7 |
| Marketing and communications, gifts and subscriptions | 18.5 | 19.2 | - 0.7 | - 3 |
| Financial information | 13.6 | 14.5 | - 0.9 | - 6 |
| Auditor fees | 2.1 | 3.0 | - 0.9 | - 29 |
| <i>of which for financial and prudential audits</i> | 2.0 | 2.6 | - 0.6 | - 24 |
| <i>of which for other services</i> | 0.2 | 0.4 | - 0.2 | - 61 |
| Other professional fees | 4.4 | 5.5 | - 1.1 | - 20 |
| Payment transactions | 10.7 | 11.9 | - 1.2 | - 10 |
| Issuing fees | 1.4 | 2.5 | - 1.1 | - 42 |
| Miscellaneous operating expenses | 9.3 | 9.9 | - 0.6 | - 6 |
| <i>of which charges for the guarantee by the Canton of Vaud¹⁾</i> | 0.4 | 0.4 | - 0.0 | - 6 |
| Total | 170.7 | 177.0 | - 6.3 | - 4 |

¹⁾ Limited guarantee by the Canton of Vaud for deposits with the Caisse d'Épargne Cantonale Vaudoise, and managed by BCV

12.7 Depreciation and amortization of fixed assets and impairment on equity investments (in CHF millions)

| | 2016 | 2015 | Change absolute | Change as % |
|-------------------|-------------|-------------|--------------------|----------------|
| Real estate | 23.6 | 24.6 | - 1.0 | - 4 |
| Computer programs | 38.5 | 39.9 | - 1.4 | - 3 |
| Other investments | 6.4 | 6.9 | - 0.5 | - 7 |
| Holdings | 0.0 | 0.1 | - 0.1 | - 98 |
| Goodwill | 3.8 | 4.1 | - 0.3 | - 8 |
| Total | 72.4 | 75.6 | - 3.2 | - 4 |

12.8 Other provisions and losses (in CHF millions)

| | | | | |
|--------------------------|------------|-------------|---------------|-------------|
| Miscellaneous provisions | 1.3 | 25.6 | - 24.3 | - 95 |
| Miscellaneous losses | 1.4 | 11.5 | - 10.1 | - 88 |
| Total | 2.7 | 37.1 | - 34.4 | - 93 |

12.9 Extraordinary income (in CHF millions)

| | | | | |
|------------------------------------|------------|-------------|---------------|-------------|
| Disposals of equity holdings | 5.0 | 26.6 | - 21.6 | - 81 |
| Disposals of tangible fixed assets | 1.2 | 0.0 | 1.2 | n/a |
| Other extraordinary income | 0.6 | 2.0 | - 1.4 | - 70 |
| Total | 6.7 | 28.6 | - 21.9 | - 76 |

12.10 Taxes (in CHF millions)

| | | | | |
|--|-------------|-------------|--------------|------------|
| Direct federal tax | 24.9 | 26.9 | - 2.0 | - 7 |
| Cantonal and municipal taxes | 57.6 | 65.9 | - 8.3 | - 13 |
| Deferred taxes | 0.9 | - 1.8 | 2.7 | n/a |
| Total | 83.5 | 91.0 | - 7.5 | - 8 |
| Weighted average tax rate, based on operating profit | 22% | 23% | | |

12.11 Breakdown of operating profit by Swiss and foreign origin (in CHF millions)

| | 2016 | | 2015 | |
|--|--------------|-------------|---------------|-------------|
| | Swiss | Foreign | Swiss | Foreign |
| Net interest income | 477.7 | 0.1 | 490.0 | 0.1 |
| Net fee and commission income | 291.0 | 16.9 | 312.7 | 19.6 |
| Net trading income | 135.6 | 3.6 | 144.7 | 5.8 |
| Other ordinary income | 42.1 | 0.0 | 52.7 | 0.0 |
| Total income from ordinary banking operations | 946.5 | 20.6 | 1000.1 | 25.5 |
| Personnel costs | 337.3 | 0.6 | 336.5 | 0.7 |
| Other operating expenses | 169.3 | 1.4 | 174.9 | 2.1 |
| Operating expenses | 506.6 | 2.1 | 511.4 | 2.8 |
| Depreciation and amortization of fixed assets and impairment on equity investments | 72.4 | 0.0 | 75.6 | 0.0 |
| Other provisions and losses | 2.7 | 0.0 | 37.1 | 0.0 |
| Operating profit | 364.8 | 18.5 | 376.0 | 22.7 |

12.12 Earnings per share

| | 2016 | 2015 |
|--|-------|-------|
| Net profit attributable to BCV Group shareholders (CHF millions) | 309.6 | 336.3 |
| Weighted average number of registered shares during the period (thousands) | 8606 | 8606 |
| Basic earnings per share (CHF) | 35.97 | 39.08 |

There are no ongoing financial transactions that would dilute earnings per share.

13. Other information

13.1 Regulatory capital requirements (in CHF millions)

| | 31 / 12 / 16 | 31 / 12 / 15 |
|--|---------------|---------------|
| Common Equity Tier 1 (CET1) capital | 2 957 | 2 924 |
| Instruments and reserves | 3 136 | 3 113 |
| Regulatory adjustments | -57 | -76 |
| Countercyclical buffer | -122 | -113 |
| Additional Tier 1 (AT1) capital | 0 | 0 |
| Instruments | 0 | 0 |
| Regulatory adjustments | 0 | 0 |
| Tier 2 (T2) capital | 22 | 19 |
| Compulsory reserves in equities and general provisions | 22 | 19 |
| Regulatory adjustments | 0 | 0 |
| Total eligible capital | 2 979 | 2 943 |
| Risk-weighted assets | | |
| Credit risk | 14 754 | 13 777 |
| Non-counterparty-related assets | 647 | 660 |
| Market risk | 413 | 363 |
| Operational risk | 1 788 | 1 789 |
| BIS required capital | 17 602 | 16 589 |
| BIS ratios | | |
| CET1 ratio | 16.8% | 17.6% |
| T1 ratio | 16.8% | 17.6% |
| Total capital ratio | 16.9% | 17.7% |
| Leverage Ratio | 6.6% | 6.7% |
| Liquidity ratios | | |
| Liquidity Coverage Ratio (LCR) | 113% | 111% |
| NSFR (Test reporting) | 121 | 118 |

In December 2008, the Bank obtained approval from FINMA to use the Basel Foundation Internal Ratings-Based approach to determine regulatory capital requirements for credit risk. It began applying this approach in 2009.

Capital adequacy has been determined in accordance with Basel III standards since 1 January 2013.

In accordance with Basel III Pillar 3 disclosure requirements, the Bank publishes a report containing information on its capital adequacy, risk-assessment methods and the level of risk taken. This report is available in the Investor Relations section of the BCV website.

13.2 Business sector information

13.2.1 Methodology

Results by business sector are presented at BCV Group level and are broken down according to the Bank's activities.

Retail Banking covers operations with retail customers who have up to CHF 250,000 in assets or a mortgage loan worth up to CHF 1.2m.

Corporate Banking handles SMEs (including micro-businesses), large corporations, public-sector enterprises and trade finance.

Wealth Management addresses the needs of private and institutional clients. This sector also includes custody activities and the subsidiaries Piquet Galland & Cie SA, G erifonds SA and GEP SA.

Trading encompasses financial market transactions (forex, equities, fixed-income instruments, metals, options, derivatives and structured products) conducted by the Bank for its own account and on behalf of customers, as well as custody activities.

The Corporate Center comprises the Board of Directors, executive management, the Human Resources Department, the Strategy & Organization Department, the Corporate Communications Department, the Finance & Risks Division (Risk Management, Financial Accounting, Controlling, ALM & Financial Management, Compliance, Legal, and Tax and Wealth Planning), the Credit Management Division (Credit Analysis, Credit Analysis Support and Credit Recovery Management), and the Business Support Division (IT Systems Management, IT Development, Facility Management & General Services, Back Office, and Security).

As a general rule, revenue is allocated to the sector to which the client or his/her advisor is attached.

For sectors dealing with clients, "Net interest income before loan impairment charges/reversals" corresponds to the gross commercial margin, i.e., the difference between the customer rate and the money-market rate, taking into account the nature and duration of the transaction (Funds Transfer Pricing, or "FTP," method). In an environment marked by continued negative interest rates, commercial margins on accounts in Swiss francs are calculated with

a minimum of zero for our retail, private banking, and corporate clients (except Large Corporates and Trade Finance).

For the Corporate Center, net interest income before loan impairment charges/reversals comprises the net gain/loss on asset and liability management, interbank activities, and on fixed assets as well as gross interest on impaired loans handled by the Credit Recovery Management Department.

Loan losses correspond to expected losses for sectors dealing with clients. The difference between new provisioning needs and expected loan losses, together with loan impairment charges/reversals, changes in existing provisions, and recoveries on repaid loans, is booked to the Corporate Center.

Income from securities trading is broken down by portfolio and allocated to the sector to which the portfolio manager is attached. Income from customer-driven forex and structured-products trading is allocated to Trading, which reallocates part of this income to the business sector to which the client is attached.

"Other income" is allocated account by account, depending on the nature of the item.

Operating expenses and depreciation and amortization are allocated in two stages. The first of these involves charging direct expenses to the sector that uses the resources (personnel, premises, IT, etc.). In the second stage, indirect expenses are allocated on the basis of services provided among sectors.

Taxes are calculated per sector according to the tax rates in effect.

Balance-sheet and off-balance-sheet volumes reflect client-related business. In general, following the same rule used for income, business volumes are allocated to the sector to which the client or his/her advisor is attached.

The definition of assets under management can be found in note 11.4 to the consolidated financial statements.

Shareholders' equity is allocated to the various types of business within each sector at 13%. Surplus equity is booked to the Corporate Center.

| | Retail Banking | | Corporate Banking | |
|---|----------------|--------------|-------------------|---------------|
| | 2016 | 2015 | 2016 | 2015 |
| 13.2.2 Customer business volumes by sector (in CHF millions) | | | | |
| Loans and advances to customers | 114 | 115 | 3 956 | 3 892 |
| Mortgage loans | 7 733 | 7 571 | 9 115 | 8 999 |
| Total customer loans | 7 847 | 7 686 | 13 070 | 12 891 |
| Customer deposits | 8 001 | 8 401 | 8 697 | 8 166 |
| Off-balance-sheet commitments | 42 | 46 | 2 648 | 1 991 |
| Assets under management (including double-counted) | 9 274 | 9 022 | 11 506 | 10 027 |

13.2.3 Results by business sector

 (in CHF millions)

| | | | | |
|--|--------------|--------------|--------------|--------------|
| Net interest income before loan impairment charges/reversals | 101.7 | 90.5 | 201.2 | 196.4 |
| Loan impairment charges/reversals ¹ | - 3.2 | - 3.2 | - 28.5 | - 27.1 |
| Net interest income after loan impairment charges/reversals | 98.5 | 87.3 | 172.7 | 169.2 |
| Net fee and commission income | 50.8 | 59.2 | 49.7 | 48.5 |
| Net trading income | 18.6 | 21.5 | 9.8 | 10.1 |
| Other income | 3.3 | 3.4 | 4.7 | 4.8 |
| Revenues | 171.2 | 171.4 | 236.9 | 232.6 |
| Personnel costs | - 48.2 | - 48.5 | - 31.6 | - 31.4 |
| Operating expenses | - 44.5 | - 46.4 | - 12.1 | - 12.2 |
| Depreciation, amortization and write-offs | - 13.6 | - 14.0 | - 2.2 | - 2.7 |
| Interdivisional billing | - 39.6 | - 43.9 | - 54.2 | - 54.0 |
| Other provisions and losses | - 0.7 | - 0.7 | - 6.3 | - 5.2 |
| Operating profit | 24.6 | 17.9 | 130.6 | 127.2 |
| Extraordinary income and expenses | 0.0 | 0.0 | 0.0 | 0.0 |
| Taxes ² and minority interests | - 5.4 | - 3.9 | - 28.7 | - 28.0 |
| Net profit | 19.2 | 14.0 | 101.9 | 99.2 |

13.2.4 Indicators

| | | | | |
|---|------|------|-------|-------|
| Average shareholders' equity (in CHF millions) ³ | 211 | 201 | 1 208 | 1 200 |
| ROE | 9.1 | 6.9 | 8.4 | 8.3 |
| Cost/income ratio ⁴ | 83.7 | 87.5 | 37.7 | 38.6 |
| Average headcount | 385 | 382 | 186 | 186 |

2015 figures were adjusted to facilitate like-for-like comparison.

- ¹⁾ Expected loan losses are allocated to the business sectors. The difference between new provisioning needs and expected loan losses is booked to the Corporate Center
- ²⁾ Taxes are calculated per business sector according to the tax rates in effect
- ³⁾ Equity is allocated to the business sectors at 13%; surplus equity is booked to the Corporate Center
- ⁴⁾ Costs used for calculating the cost/income ratio per sector comprise personnel costs, operating expenses, depreciation, amortization and write-offs, and interdivisional billing. Income comprises income before loan impairment charges

| Wealth Management | | Trading | | Corporate Center | | BCV Group | |
|-------------------|--------|---------|-------|------------------|--------|-----------|--------|
| 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| 635 | 653 | 0 | 0 | 107 | 274 | 4812 | 4935 |
| 7432 | 7173 | 0 | 0 | 757 | 780 | 25037 | 24522 |
| 8067 | 7826 | 0 | 0 | 864 | 1054 | 29849 | 29457 |
| 12200 | 11824 | 3 | 0 | 344 | 486 | 29245 | 28877 |
| 54 | 55 | 11 | 10 | 335 | 250 | 3089 | 2353 |
| 64246 | 68251 | 0 | 0 | 357 | 673 | 85382 | 87972 |
| 94.5 | 85.5 | 2.2 | 4.9 | 82.9 | 112.0 | 482.5 | 489.2 |
| -3.7 | -3.3 | 0.0 | 0.0 | 30.7 | 34.6 | -4.7 | 0.9 |
| 90.8 | 82.2 | 2.2 | 4.9 | 113.6 | 146.6 | 477.8 | 490.1 |
| 204.7 | 216.3 | -0.7 | -0.3 | 3.4 | 8.6 | 307.9 | 332.3 |
| 21.6 | 23.9 | 59.3 | 62.6 | 29.9 | 32.4 | 139.2 | 150.5 |
| 2.8 | 2.3 | 0.0 | 0.0 | 31.3 | 42.2 | 42.1 | 52.8 |
| 319.9 | 324.6 | 60.9 | 67.2 | 178.2 | 229.9 | 967.1 | 1025.6 |
| -102.5 | -101.1 | -14.2 | -13.7 | -141.5 | -142.5 | -338.0 | -337.2 |
| -37.1 | -40.1 | -9.7 | -9.7 | -67.4 | -68.6 | -170.7 | -177.0 |
| -14.5 | -15.1 | -1.6 | -1.7 | -40.5 | -42.1 | -72.4 | -75.6 |
| -67.1 | -66.9 | -3.3 | -2.9 | 164.2 | 167.7 | 0.0 | 0.0 |
| -0.4 | -3.0 | -1.4 | -1.1 | 6.1 | -27.2 | -2.7 | -37.1 |
| 98.3 | 98.3 | 30.7 | 38.0 | 99.2 | 117.3 | 383.4 | 398.7 |
| 0.0 | 0.0 | 0.0 | 0.0 | 9.7 | 28.6 | 9.7 | 28.6 |
| -23.0 | -23.0 | -6.8 | -8.4 | -19.6 | -27.7 | -83.5 | -91.0 |
| 75.3 | 75.3 | 23.9 | 29.7 | 89.3 | 118.2 | 309.6 | 336.3 |
| 309 | 304 | 98 | 109 | 1533 | 1519 | 3359 | 3333 |
| 24.4 | 24.8 | 24.5 | 27.1 | 0 | 0 | 9.1 | 10.1 |
| 67.2 | 66.9 | 47.3 | 41.8 | 0 | 0 | 59.4 | 57.2 |
| 510 | 504 | 57 | 58 | 807 | 811 | 1945 | 1940 |

13.3 Consolidated income statement – 5-year overview (in CHF millions)

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|--|---------------|---------------|---------------|---------------|---------------|
| Interest and discount income | 712.3 | 672.7 | 652.5 | 628.7 | 599.0 |
| Interest and dividend income from financial investments | 57.9 | 56.3 | 54.2 | 47.4 | 40.3 |
| Interest expense | -250.3 | -227.0 | -202.4 | -186.9 | -156.7 |
| Net interest income before loan impairment charges/reversals | 519.9 | 502.0 | 504.3 | 489.2 | 482.5 |
| Loan impairment charges/reversals | 4.4 | 8.2 | 16.3 | 0.9 | -4.7 |
| Net interest income after loan impairment charges/reversals (NII) | 524.3 | 510.2 | 520.6 | 490.1 | 477.8 |
| Fees and commissions on securities and investment transactions | 281.9 | 285.4 | 280.0 | 263.3 | 241.5 |
| Fees and commissions on lending operations | 50.2 | 44.5 | 44.9 | 42.7 | 42.2 |
| Fees and commissions on other services | 79.1 | 76.7 | 82.5 | 80.9 | 75.2 |
| Fee and commission expense | -64.2 | -65.3 | -64.0 | -54.6 | -51.0 |
| Net fee and commission income | 347.0 | 341.3 | 343.4 | 332.3 | 307.9 |
| Net trading income and fair-value adjustments | 113.1 | 112.8 | 106.4 | 150.5 | 139.2 |
| Gains/losses on disposals of financial investments | 5.9 | 1.8 | 3.2 | 11.4 | 6.4 |
| Income from equity investments | 4.8 | 9.6 | 4.3 | 15.3 | 5.5 |
| <i>of which other non-consolidated holdings</i> | 4.8 | 9.6 | 4.3 | 15.3 | 5.5 |
| Real-estate income | 11.3 | 11.5 | 11.0 | 10.7 | 11.0 |
| Miscellaneous ordinary income | 9.5 | 15.2 | 21.9 | 22.1 | 21.6 |
| Miscellaneous ordinary expenses | -1.1 | -3.1 | -0.8 | -6.8 | -2.3 |
| Other ordinary income | 30.4 | 35.0 | 39.6 | 52.7 | 42.1 |
| Total income from ordinary banking operations | 1014.8 | 999.3 | 1010.0 | 1025.6 | 967.1 |
| Personnel costs | -334.7 | -337.3 | -339.0 | -337.2 | -338.0 |
| Other operating expenses | -189.9 | -182.6 | -178.9 | -177.0 | -170.7 |
| Operating expenses | -524.6 | -519.9 | -517.9 | -514.2 | -508.7 |
| Depreciation and amortization of fixed assets and impairment on equity investments | -86.2 | -85.7 | -79.7 | -75.6 | -72.4 |
| Other provisions and losses | -3.0 | -40.8 | -33.8 | -37.1 | -2.7 |
| Operating profit | 401.0 | 352.9 | 378.6 | 398.7 | 383.4 |
| Extraordinary income | 3.7 | 11.2 | 2.6 | 28.6 | 6.7 |
| Extraordinary expenses | -1.6 | -0.1 | 0.0 | 0.0 | 0.0 |
| Change in reserves for general banking risks | | | | | 3.0 |
| Taxes | -92.0 | -83.9 | -85.1 | -91.0 | -83.5 |
| Net profit | 311.1 | 280.1 | 296.1 | 336.3 | 309.6 |
| Minority interests | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net profit attributable to BCV Group shareholders | 311.0 | 280.1 | 296.1 | 336.3 | 309.6 |

As of the 2015 financial year, the financial statements are presented in accordance with the new Swiss accounting rules for banks; the figures for the previous years have been adjusted to facilitate like-for-like comparison.

13.4 Consolidated balance sheet – 5-year overview (in CHF millions)

| | 31 / 12 / 12 | 31 / 12 / 13 | 31 / 12 / 14 | 31 / 12 / 15 | 31 / 12 / 16 |
|--|---------------|---------------|---------------|---------------|---------------|
| Cash and cash equivalents | 4 734 | 4 669 | 4 960 | 6 861 | 7 496 |
| Due from banks | 1 696 | 1 073 | 1 482 | 1 810 | 1 373 |
| Reverse repurchase agreements | 311 | 536 | 415 | 280 | 306 |
| Loans and advances to customers | 4 984 | 5 372 | 5 675 | 4 935 | 4 812 |
| Mortgage loans | 22 845 | 23 357 | 24 045 | 24 522 | 25 037 |
| Trading portfolio assets | 102 | 360 | 194 | 155 | 153 |
| Positive mark-to-market values of derivative financial instruments | 246 | 239 | 433 | 343 | 281 |
| Other financial assets at fair value | 405 | 416 | 485 | 581 | 630 |
| Financial investments | 3 101 | 3 146 | 3 259 | 3 140 | 3 234 |
| Accrued income and prepaid expenses | 198 | 195 | 117 | 106 | 107 |
| Non-consolidated holdings | 52 | 50 | 54 | 48 | 70 |
| Tangible fixed assets | 621 | 602 | 577 | 558 | 517 |
| Intangible assets | 37 | 32 | 27 | 23 | 16 |
| Other assets | 151 | 130 | 96 | 56 | 54 |
| Assets | 39 483 | 40 177 | 41 819 | 43 418 | 44 085 |
| Due to banks | 1 508 | 1 103 | 1 156 | 1 224 | 1 070 |
| Repurchase agreements | 939 | 860 | 960 | 1 738 | 1 791 |
| Customer deposits | 26 544 | 27 557 | 28 532 | 28 877 | 29 245 |
| Negative mark-to-market values of derivative financial instruments | 378 | 303 | 446 | 331 | 244 |
| Other financial liabilities at fair value | 499 | 537 | 564 | 666 | 771 |
| Medium-term notes | 131 | 81 | 57 | 40 | 21 |
| Bonds and mortgage-backed bonds | 5 837 | 6 064 | 6 439 | 6 873 | 7 267 |
| Accrued expenses and deferred income | 231 | 225 | 217 | 219 | 184 |
| Other liabilities | 83 | 74 | 44 | 35 | 56 |
| Provisions | 18 | 51 | 63 | 18 | 16 |
| Liabilities | 36 168 | 36 855 | 38 478 | 40 021 | 40 666 |
| Reserves for general banking risks | 704 | 704 | 704 | 704 | 701 |
| Share capital | 86 | 86 | 86 | 86 | 86 |
| Capital reserve | 275 | 192 | 106 | 292 | 207 |
| Retained earnings | 1 950 | 2 072 | 2 163 | 1 999 | 2 137 |
| Currency translation reserve | - 1 | - 1 | - 1 | - 2 | - 2 |
| Treasury shares | - 11 | - 11 | - 13 | - 18 | - 19 |
| Minority interests in equity | 1 | 0 | 0 | 0 | 0 |
| Net profit | 311 | 280 | 296 | 336 | 310 |
| Shareholders' equity | 3 315 | 3 322 | 3 341 | 3 397 | 3 420 |
| Total liabilities and shareholders' equity | 39 483 | 40 177 | 41 819 | 43 418 | 44 085 |

As of the 2015 financial year, the financial statements are presented in accordance with the new Swiss accounting rules for banks; the figures for the previous years have been adjusted to facilitate like-for-like comparison.



Statutory Auditor's Report

To the General Meeting of Banque Cantonale Vaudoise, Lausanne

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Banque Cantonale Vaudoise and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2016, and the consolidated income statement, the consolidated cash flow statement and the consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 103 to 144) give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with accounting rules for banks, securities dealers, financial groups and conglomerates (ARB) and comply with Swiss law.

Basis for Opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority



Credit risk identification methods and valuation of the related loan impairment charges



On-balance-sheet recording and valuation of the structured products issued by the bank

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



Credit risk identification methods and valuation of the related loan impairment charges

Key Audit Matter

Lending operations are one of the bank's main activities and represent approximately two thirds of its consolidated balance sheet as at 31 December 2016. The valuation of a counterparty's default risk relies largely on the use of rating methods developed by the bank. The valuation of the related loan impairment charges relies on an analysis method that takes into account various elements such as market factors, the client's estimated willingness to repay and financial capacity or the estimation of the collateral's value.

The identification of risks and the valuation of the related loan impairment charges thus rely on models and analyses that imply an element of judgement by the Board of Directors and management. Exposures that create greater uncertainty are typically those that result from unsecured loans or those that are subject to a collateral's loss of value.

For further information on the credit risk identification methods and the valuation of the related loan impairment charges, refer to the following notes to the consolidated financial statements of Banque Cantonale Vaudoise as at 31 December 2016:

- Note 7.2 "Credit risk" (p. 115 to 117 of the Annual Report)
- Note 10.2 "Risk mitigants for loans and off-balance-sheet transactions, impaired loans" (p. 121 of the Annual Report)

Our response

Our procedures consisted in particular in assessing and testing the key controls related to the granting, recording and monitoring of loans as well as the methodology used for the identification of default risk and the valuation of the loan impairment charges.

For a sample of non-impaired exposures, we assessed the debtors' capacity to fulfil their obligations. We compared our findings with the assessment of the default risk performed by the bank using its counterparty rating process.

Regarding receivables that are considered as impaired or as presenting latent risks, our procedures consisted, among others, of assessing the evolution of the relation between the loan impairment and the concerned receivables as a whole. For a sample of individual receivables that are considered as impaired or as presenting latent risks, we assessed the debtors' financial standing as well as the valuation of collaterals and we compared our findings with the assumptions and factors taken into account by the bank when calculating the required loan impairment charges.



On-balance-sheet recording and valuation of the structured products issued by the bank

Key Audit Matter

The bank offers a wide range of securities trading services comprising in particular the development and issuance of structured products. As at 31 December 2016, the structured products recorded under “Other financial liabilities at fair value” and “Bonds and mortgage-backed bonds” represent a net balance sheet liability of CHF 1.7 billion.

The recognition and valuation of these instruments are based on principles defined by the Board of Directors and management, whose application requires an element of judgement and estimate. The uncertainty relative to the positions’ fair value valuation is higher when valuation models are used.

Our response

Our audit work consisted in assessing and testing the processes and key controls related to recognition as well as to the methods and parameters used for the valuation of the structured products issued by the bank. Our procedures included controls over price verification and recording of products issued.

For a sample of structured products issued by the bank, we assessed whether these were properly recorded and presented in the bank’s consolidated financial statements. We also examined the adequacy of the valuation methods used as well as the parameters applied by the bank. We compared these elements with independent sources and available market data. When performing these procedures, we involved our internal valuation specialists.

Regarding the structured products carried at fair value, we assessed whether the products were properly classified in this category and we tested whether they were properly valued and recorded. Concerning the structured products valued at amortized cost, we assessed whether the rules governing the separation of the derivative from the host instrument were properly applied, and whether the host instrument and the embedded derivative were properly recorded and valued.

For further information on the on-balance-sheet recording and the valuation of the structured products issued by the bank, refer to the following notes to the consolidated financial statements of Banque Cantonale Vaudoise as at 31 December 2016:

- Note 6.4.7 “Other financial assets at fair value” (p. 109 of the Annual Report)
- Note 10.14 “Issued structured products” (p. 129 of the Annual Report)

Responsibility of the Board of Directors for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with accounting rules for banks, securities dealers, financial groups and conglomerates (ARB) and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.



Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

KPMG SA

A handwritten signature in blue ink, appearing to read 'O. Gauderon', written over a faint, illegible stamp.

Olivier Gauderon
Licensed Audit Expert
Auditor in Charge

A handwritten signature in blue ink, appearing to read 'P. Ruedin', written over a faint, illegible stamp.

Philippe Ruedin
Licensed Audit Expert

Geneva, 10 March 2017

KPMG SA, Rue de Lyon 111, CH-1203 Geneva

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Financial Statements

Parent Company Financial Statements

1. Balance sheet (in CHF millions)

| | Notes ¹ | 31 / 12 / 16 | 31 / 12 / 15 | Change absolute | Change as % |
|--|--------------------|---------------|---------------|--------------------|----------------|
| Cash and cash equivalents | | 7 302 | 6 680 | 622 | 9 |
| Due from banks | | 1 360 | 1 784 | - 424 | - 24 |
| Reverse repurchase agreements | 5.1 | 306 | 280 | 26 | 9 |
| Loans and advances to customers | 5.2 | 4 645 | 4 763 | - 118 | - 2 |
| Mortgage loans | 5.2 | 24 548 | 24 073 | 475 | 2 |
| Trading portfolio assets | 5.3 | 153 | 155 | - 2 | - 1 |
| Positive mark-to-market values of derivative financial instruments | 5.4 | 283 | 349 | - 66 | - 19 |
| Other financial assets at fair value | 5.3 | 630 | 581 | 49 | 8 |
| Financial investments | 5.5 | 3 207 | 3 106 | 101 | 3 |
| Accrued income and prepaid expenses | | 103 | 103 | 0 | 0 |
| Holdings | | 175 | 153 | 22 | 15 |
| Tangible fixed assets | | 479 | 496 | - 17 | - 3 |
| Other assets | 5.6 | 48 | 41 | 7 | 17 |
| Assets | 5.18 | 43 240 | 42 564 | 676 | 2 |
| Total subordinated assets | | 0 | 0 | 0 | 0 |
| <i>of which subject to mandatory conversion and/or conditional write-off</i> | | 0 | 0 | 0 | 0 |
| Due to banks | | 1 127 | 1 409 | - 282 | - 20 |
| Repurchase agreements | 5.1 | 1 791 | 1 738 | 53 | 3 |
| Customer deposits | 5.19 | 28 403 | 27 917 | 486 | 2 |
| Negative mark-to-market values of derivative financial instruments | 5.4 | 240 | 328 | - 88 | - 27 |
| Other financial liabilities at fair value | 5.3/5.10 | 771 | 666 | 105 | 16 |
| Medium-term notes | | 21 | 40 | - 19 | - 46 |
| Bonds and mortgage-backed bonds | | 7 267 | 6 873 | 394 | 6 |
| Accrued expenses and deferred income | | 172 | 207 | - 35 | - 17 |
| Other liabilities | 5.6 | 63 | 30 | 33 | 112 |
| Provisions | 5.11 | 10 | 11 | - 1 | - 11 |
| Liabilities | | 39 865 | 39 219 | 646 | 2 |
| Reserves for general banking risks | 5.11 | 701 | 701 | 0 | 0 |
| Share capital | 5.12/5.15/5.16 | 86 | 86 | 0 | 0 |
| Regulatory capital reserve | | 179 | 265 | - 86 | - 33 |
| <i>of which tax-exempt paid-in capital</i> | | 179 | 265 | - 86 | - 33 |
| Regulatory retained earnings | | 86 | 85 | 1 | 1 |
| Optional retained earnings | | 2 027 | 1 865 | 162 | 9 |
| Treasury shares | | - 19 | - 18 | - 1 | - 8 |
| Profit for the year | | 315 | 361 | - 46 | - 13 |
| Shareholders' equity | | 3 375 | 3 345 | 30 | 1 |
| Total liabilities and shareholders' equity | | 43 240 | 42 564 | 676 | 2 |
| Total subordinated liabilities | | 0 | 0 | 0 | 0 |
| <i>of which subject to mandatory conversion and/or conditional write-off</i> | | 0 | 0 | 0 | 0 |

¹⁾ The notes are on pages 163–178

| Off-balance-sheet transactions (in CHF millions) | Notes ¹ | 31 / 12 / 16 | 31 / 12 / 15 | Change absolute | Change as % |
|--|--------------------|--------------|--------------|--------------------|----------------|
| Contingent liabilities | 5.2 | 1 575 | 1 183 | 392 | 33 |
| Irrevocable commitments | 5.2 | 1 251 | 992 | 259 | 26 |
| Commitments relating to calls on shares and other equity securities | 5.2 | 178 | 113 | 65 | 57 |
| Confirmed credits | 5.2 | 77 | 53 | 24 | 44 |

¹⁾ The notes are on page 163

2. Income statement (in CHF millions)

| | Notes ¹ | 2016 | 2015 | Change absolute | Change as % |
|--|--------------------|---------------|---------------|--------------------|----------------|
| Interest and discount income | | 590.4 | 620.3 | -29.9 | -5 |
| Interest and dividend income from financial investments | | 40.2 | 47.2 | -7.0 | -15 |
| Interest expense | | -154.5 | -185.2 | -30.7 | -17 |
| Net interest income before loan impairment charges/reversals | | 476.0 | 482.3 | -6.3 | -1 |
| Loan impairment charges/reversals | | -4.3 | 0.8 | -5.1 | n/a |
| Net interest income after loan impairment charges/reversal (NII) | | 471.7 | 483.1 | -11.4 | -2 |
| Fees and commissions on securities and investment transactions | | 162.6 | 180.9 | -18.3 | -10 |
| Fees and commissions on lending operations | | 42.1 | 42.6 | -0.5 | -1 |
| Fees and commissions on other services | | 70.7 | 75.7 | -5.0 | -7 |
| Fee and commission expense | | -24.5 | -30.2 | -5.7 | -19 |
| Net fee and commission income | | 250.9 | 269.0 | -18.1 | -7 |
| Net trading income and fair-value adjustments | 7.2 | 127.6 | 139.5 | -11.9 | -9 |
| Gains/losses on disposals of financial investments | | 5.9 | 10.9 | -5.0 | -46 |
| Income from equity investments | | 18.9 | 34.6 | -15.7 | -45 |
| Real-estate income | | 10.6 | 10.3 | 0.3 | 3 |
| Miscellaneous ordinary income | | 22.0 | 22.5 | -0.5 | -2 |
| Miscellaneous ordinary expenses | | -2.3 | -6.6 | -4.3 | -66 |
| Other ordinary income | | 55.1 | 71.7 | -16.6 | -23 |
| Total income from ordinary banking operations | | 905.3 | 963.3 | -58.0 | -6 |
| Personnel costs | 7.3 | -295.8 | -295.2 | 0.6 | 0 |
| Other operating expenses | 7.4 | -154.4 | -157.8 | -3.4 | -2 |
| Operating expenses | | -450.2 | -453.0 | -2.8 | -1 |
| Depreciation and amortization of fixed assets and impairment on equity investments | | -63.5 | -66.3 | -2.8 | -4 |
| Other provisions and losses | 7.5 | -2.2 | -21.3 | -19.1 | -90 |
| Operating profit | | 389.3 | 422.7 | -33.4 | -8 |
| Extraordinary income | 7.6 | 6.1 | 28.6 | -22.5 | -79 |
| Extraordinary expenses | | 0.0 | 0.0 | 0.0 | 0 |
| Taxes | 7.7 | -80.3 | -90.8 | -10.5 | -12 |
| Profit for the year | | 315.2 | 360.5 | -45.3 | -13 |
| Appropriations | 8.1 | | | | |
| Profit for the year | | 315.2 | 360.5 | | |
| Profit shown on the balance sheet | | 315.2 | 360.5 | | |
| Appropriation of profit | | | | | |
| - Allocation to optional retained earnings | | 117.2 | 162.6 | | |
| - Allocation to regulatory retained earnings | | 0.0 | 0.0 | | |
| - Distribution of dividend on share capital | | 197.9 | 197.9 | | |
| Other distributions | 8.2 | | | | |
| Distribution drawn from paid-in reserves | | 86.1 | 86.1 | | |

¹⁾ The notes are on pages 180–182

3. Statement of changes in equity (in CHF millions)

| | Share capital | Capital reserve | Regulatory retained earnings | Reserves for general banking risks | Optional retained earnings | Treasury shares | Profit/loss for the year | Total equity |
|--|---------------|-----------------|------------------------------|------------------------------------|----------------------------|-----------------|--------------------------|--------------|
| Status at 1 January 2014 | 86 | 437 | 84 | 701 | 1 628 | 0 | 297 | 3 233 |
| Allocation to other reserves | | | | | 107 | | - 107 | 0 |
| 2013 dividend | | | | | | | - 190 | - 190 |
| Distribution out of paid-in reserves | | - 86 | | | | | | - 86 |
| Purchases of treasury shares | | | | | | - 13 | | - 13 |
| Disposals of treasury shares | | | | | | 0 | | 0 |
| Profit/loss for the year | | | | | | | 319 | 319 |
| Status at 31 December 2014 | 86 | 351 | 84 | 701 | 1 735 | - 13 | 319 | 3 263 |
| Allocation to other reserves | | | | | 130 | | - 130 | 0 |
| 2014 dividend | | | | | | | - 189 | - 189 |
| Distribution out of paid-in reserves | | - 86 | | | | | | - 86 |
| Purchases of treasury shares | | | | | | - 45 | | - 45 |
| Disposals of treasury shares | | | | | | 40 | | 40 |
| Gain on disposals of treasury shares and dividends | | 0 | 1 | | | | | 1 |
| Profit/loss for the year | | | | | | | 361 | 361 |
| Status at 31 December 2015 | 86 | 265 | 85 | 701 | 1 865 | - 18 | 361 | 3 345 |
| Allocation to other reserves | | | | | 163 | | - 163 | 0 |
| 2015 dividend | | | | | | | - 198 | - 198 |
| Distribution out of paid-in reserves | | - 86 | | | | | | - 86 |
| Purchases of treasury shares | | | | | | - 37 | | - 37 |
| Disposals of treasury shares | | | | | | 36 | | 36 |
| Gain on disposals of treasury shares and dividends | | 0 | 1 | | | | | 1 |
| Profit/loss for the year | | | | | | | 315 | 315 |
| Status at 31 December 2016 | 86 | 179 | 86 | 701 | 2 027 | - 19 | 315 | 3 375 |

4. Parent-company name and accounting principles

4.1 Company name, legal status and head office

Banque Cantonale Vaudoise (BCV) was founded on 19 December 1845 by the Vaud Cantonal Parliament as a société anonyme de droit public (i.e., a corporation organized under public law). Its legal status is defined in the Cantonal Act Governing the Organization of Banque Cantonale Vaudoise (LBCV) of 20 June 1995, and its head office is in Lausanne.

4.2 Accounting principles for the parent company financial statements

BCV's financial statements have been prepared in accordance with the Swiss Federal Act of 8 November 1934 on Banks and Savings Institutions, the corresponding Ordinance of 30 April 2014 and the Swiss Accounting Rules for Banks, Securities Dealers, Financial Groups and Conglomerates of 27 March 2014 (FINMA Circular 2015/1). The financial statements give a true and fair view of the Bank's financial position that would enable a third party to form an accurate opinion of the Bank's financial situation.

4.3 Accounting and valuation principles

The valuation principles used to draw up the parent company financial statements are the same as those used for the consolidated financial statements, with the exception of the following items:

4.3.1 Holdings

This line item comprises shares and other equity securities held as long-term investments. They are carried at cost less any impairment.

4.3.2 Treasury shares

Dividend payments on treasury shares and gains and losses on treasury-share disposals are allocated directly to regulatory retained earnings, while for the consolidated financial statements they are allocated directly to the capital reserve.

4.4 Changes to accounting principles

No changes were made to the accounting principles in 2016.

4.5 Risk-assessment and risk-management principles

Risk-assessment and risk-management principles for the parent company are the same as those for the Group; they are detailed in note 7 to the consolidated financial statements.

4.6 Use of hedge accounting

Information on the use of hedge accounting by the parent company is the same as for the Group; it is provided in note 8 to the consolidated financial statements.

4.7 Events taking place after the closing date

To the parent company's knowledge, there was no event liable to have a material influence on the financial statements as of 9 March 2017, when the writing of this annual report was completed.

5. Notes to the balance sheet

5.1 Repurchase and reverse repurchase agreements (in CHF millions)

| | 31 / 12 / 16 | 31 / 12 / 15 |
|--|--------------|--------------|
| Book value of claims arising from cash collateral pledged in connection with securities borrowing or reverse repurchase agreements ¹⁾ | 306 | 280 |
| Book value of liabilities arising from cash collateral received in connection with securities lending or repurchase agreements ¹⁾ | 1 791 | 1 738 |
| Book value of securities held for own account, lent or transferred as collateral in connection with securities borrowing or repurchase agreements | 1 653 | 1 647 |
| <i>of which those that can be sold or repledged without restriction</i> | 1 653 | 1 647 |
| Fair value of securities received as collateral in connection with securities lending and those received in connection with securities borrowing and under reverse repurchase agreements, which can be sold or repledged without restriction | 339 | 311 |
| <i>of which securities repledged as collateral</i> | 0 | 0 |
| <i>of which sold securities</i> | 0 | 0 |

¹⁾ Before netting agreements

5.2 Risk mitigants for loans and off-balance-sheet transactions

Impaired loans (in CHF millions)

| | | Type of risk mitigant | | | Total |
|---|--------------|-----------------------|--------------|--------------|---------------|
| | | Mortgage | Other | Unsecured | |
| Loans and advances to customers | | 444 | 1 248 | 3 024 | 4 717 |
| Mortgages | | 24 556 | | | 24 556 |
| <i>Residential real estate</i> | | 20 567 | | | 20 567 |
| <i>Office and business premises</i> | | 2 672 | | | 2 672 |
| <i>Commercial and industrial property</i> | | 1 304 | | | 1 304 |
| <i>Other</i> | | 13 | | | 13 |
| Loans (before impairment charges/reversals) | 31 / 12 / 16 | 25 000 | 1 248 | 3 024 | 29 273 |
| | 31 / 12 / 15 | 24 521 | 1 270 | 3 121 | 28 912 |
| Loans (after impairment charges/reversals) | 31 / 12 / 16 | 24 992 | 1 248 | 2 953 | 29 193 |
| | 31 / 12 / 15 | 24 511 | 1 270 | 3 055 | 28 836 |
| Contingent liabilities | | 13 | 440 | 1 122 | 1 575 |
| Irrevocable commitments | | 262 | | 989 | 1 251 |
| Commitments relating to calls on shares and other equity securities | | | | 178 | 178 |
| Confirmed credits | | | | 77 | 77 |
| Off-balance-sheet transactions | 31 / 12 / 16 | 275 | 440 | 2 365 | 3 080 |
| | 31 / 12 / 15 | 206 | 312 | 1 823 | 2 341 |

| | | Gross receivables | Realization value of risk mitigants | Net receivables | Individual impairment charge/reversal |
|-----------------------|--------------|-------------------|-------------------------------------|-----------------|---------------------------------------|
| Impaired loans | 31 / 12 / 16 | 206 | - 111 | 95 | 76 |
| | 31 / 12 / 15 | 200 | - 110 | 90 | 72 |
| Change (absolute) | | 6 | 1 | 5 | 4 |
| Change (as %) | | 3 | 1 | 5 | 6 |

5.3 Trading portfolio assets and liabilities

Other financial assets and liabilities at fair value (in CHF millions)

| Assets | 31 / 12 / 16 | 31 / 12 / 15 |
|--|--------------|--------------|
| Debt securities | 40 | 28 |
| <i>of which listed on a recognized stock exchange</i> | 40 | 28 |
| Equity securities | 1 | 2 |
| Commodities and precious metals | 112 | 125 |
| Trading portfolio assets | 153 | 155 |
| Debt securities | 126 | 167 |
| Structured products | 0 | 0 |
| Other | 504 | 414 |
| Other financial assets at fair value | 630 | 581 |
| Total | 783 | 736 |
| <i>of which determined using a valuation model</i> | 0 | 0 |
| <i>of which securities eligible for repurchase agreements in accordance with liquidity regulations</i> | 36 | 21 |

| Liabilities | 31 / 12 / 16 | 31 / 12 / 15 |
|--|--------------|--------------|
| Trading portfolio liabilities | 0 | 0 |
| Debt securities | 0 | 0 |
| Structured products | 771 | 666 |
| Other financial liabilities at fair value | 771 | 666 |
| Total | 771 | 666 |
| <i>of which determined using a valuation model</i> | 69 | 75 |

5.4 Derivative financial instruments (in CHF millions)

| | Trading instruments | | | Hedging instruments | | | |
|--|-------------------------------------|-------------------------------------|------------------------------|-------------------------------------|-------------------------------------|------------------------------|--------------|
| | Positive mark-to-market value | Negative mark-to-market value | Value of underlying asset | Positive mark-to-market value | Negative mark-to-market value | Value of underlying asset | |
| Swaps | 60 | 73 | 2 262 | 230 | 191 | 6 750 | |
| Futures | | | 219 | | | | |
| Interest-rate instruments | 60 | 73 | 2 481 | 230 | 191 | 6 750 | |
| Forward contracts and swaps | 270 | 283 | 28 448 | | | | |
| Options (OTC) | 73 | 51 | 9 700 | | | | |
| Foreign currencies and precious metals | 342 | 334 | 38 148 | 0 | 0 | 0 | |
| Futures | | | 14 | | | | |
| Options (OTC) | 56 | 47 | 382 | | | | |
| Equity securities / indices | 56 | 47 | 396 | 0 | 0 | 0 | |
| Total | 31 / 12 / 16 | 458 | 454 | 41 025 | 230 | 191 | 6 750 |
| <i>of which determined using a valuation model</i> | | 128 | 98 | – | – | – | – |
| | 31 / 12 / 15 | 613 | 564 | 51 190 | 227 | 255 | 7 117 |
| <i>of which determined using a valuation model</i> | | 177 | 123 | – | – | – | – |

| | | Positive market-to-market value | Negative market-to-market value | Value of underlying asset |
|--|--------------|---------------------------------------|---------------------------------------|------------------------------|
| Breakdown | | | | |
| Trading instruments | | 458 | 454 | 41 025 |
| Hedging instruments | | 230 | 191 | 6 750 |
| Total before netting agreements | 31 / 12 / 16 | 688 | 646 | 47 775 |
| | 31 / 12 / 15 | 840 | 819 | 58 307 |
| Total after netting agreements | 31 / 12 / 16 | 283 | 240 | 47 775 |
| | 31 / 12 / 15 | 349 | 328 | 58 307 |
| Change | absolute | – 66 | – 88 | – 10 532 |
| | as % | – 19 | – 27 | – 18 |

Breakdown by counterparty

| | Central clearing houses | Banks and securities dealers | Other clients |
|--|-------------------------|------------------------------|---------------|
| Positive mark-to-market value (after netting agreements) | 0 | 180 | 103 |

5.5 Financial investments (in CHF millions)

| | 31 / 12 / 16 | | 31 / 12 / 15 | |
|---|--------------|--------------|--------------|--------------|
| | Book value | Fair value | Book value | Fair value |
| Debt securities | 3 161 | 3 311 | 3 059 | 3 221 |
| <i>of which securities intended to be held until maturity</i> | 3 161 | 3 311 | 3 059 | 3 221 |
| <i>of which securities available for sale</i> | 0 | 0 | 0 | 0 |
| Equity securities | 26 | 74 | 26 | 66 |
| <i>of which significant holdings (minimum of 10% of capital or voting rights)</i> | 4 | 4 | 4 | 4 |
| Available-for-sale real estate | 21 | 22 | 21 | 24 |
| Financial investments | 3 207 | 3 408 | 3 106 | 3 311 |
| <i>including securities eligible for repurchase agreements in accordance with liquidity regulations</i> | 3 144 | – | 2 982 | – |

 Counterparty breakdown
by rating

| | AAA to AA- | A+ to A- | BBB+ to BBB- | BB+ to B- | Below B- | Not rated | Total |
|-------------------------------|------------|----------|--------------|-----------|----------|-----------|-------|
| Book value of debt securities | 2 982 | 0 | 0 | 0 | 0 | 179 | 3 161 |

The rating categories are based on Standard & Poor's ratings; they are used for the specific instruments to which the Group has subscribed. If an instrument is not rated by Standard & Poor's, the Moody's rating is used; failing that, the Fitch rating is used. Where there is no specific rating for a given instrument, the issuer's long-term rating is used, with the same order of rating agencies.

Unrated positions are in top-quality debt securities issued by Swiss cantons, municipalities and cantonal banks for which none of the three agencies provides a rating of either the instrument or the issuer.

5.6 Other assets and liabilities (in CHF millions)

| | 31 / 12 / 16 | | 31 / 12 / 15 | |
|--------------------------------------|--------------|-------------------|--------------|-------------------|
| | Other assets | Other liabilities | Other assets | Other liabilities |
| Offset accounts | 0 | 46 | 12 | 0 |
| Indirect taxes | 21 | 8 | 9 | 11 |
| Coupons/coupons and securities due | 4 | 1 | 3 | 1 |
| Settlement accounts | 13 | 2 | 15 | 7 |
| Miscellaneous assets and liabilities | 11 | 6 | 2 | 11 |
| Other assets and liabilities | 48 | 63 | 41 | 30 |

5.7 Assets pledged or assigned as collateral for own liabilities, and assets with reservation of title (in CHF millions)

| | 31 / 12 / 16 | | 31 / 12 / 15 | |
|--|--------------------------------|----------------|--------------------------------|----------------|
| | Amount or book value of pledge | Real liability | Amount or book value of pledge | Real liability |
| Assets pledged or assigned to Swiss National Bank | 181 | 0 | 184 | 0 |
| Mortgages pledged or assigned to Central mortgage-bond Institution of Swiss Cantonal Banks | 7 354 | 5 612 | 7 005 | 5 470 |
| Other | 277 | 277 | 211 | 211 |
| Total assets pledged or assigned | 7 812 | 5 889 | 7 400 | 5 681 |
| Assets with reservation of title | 0 | 0 | 0 | 0 |

5.8 Commitments relating to own occupational pension funds

BCV shares held by own occupational pension funds (in CHF millions)

| | 31 / 12 / 16 | 31 / 12 / 15 |
|-------------------|--------------|--------------|
| Customer deposits | 151 | 58 |
| Bonds | 0 | 11 |
| Total | 151 | 69 |

BCV's own occupational pension funds held no BCV shares at 31 December 2016.

5.9 Economic situation of own occupational pension funds (in CHF millions)

There were no employer contribution reserves at end-2016 or end-2015.

| Economic benefit/liability and pension expenses | Surplus / deficit | Economic benefit/liability | | | Contributions adjusted for the period 2016 | Pension expenses included in "Personnel costs" | |
|--|-------------------|----------------------------|--------------|----------|---|--|-------------|
| | | 31 / 12 / 16 | 31 / 12 / 15 | Change | | 2016 | 2015 |
| Employer-financed pension funds: "Fonds de prévoyance en faveur du personnel de la BCV" ¹⁾ | 44.0 | 0 | 0 | 0 | 0.0 | 0.0 | 0.0 |
| Pension funds with no surplus or deficit: "Caisse de pensions de la BCV" | | 0 | 0 | 0 | 33.2 | 33.2 | 30.5 |
| Pension funds with surpluses: "Fondation de prévoyance complémentaire en faveur de l'encadrement supérieur de la BCV" | 0.6 | 0 | 0 | 0 | 1.2 | 1.2 | 1.7 |
| Total | 44.6 | 0 | 0 | 0 | 34.4 | 34.4 | 32.2 |

¹⁾ Since the intention is not to apply the surpluses to reduce or refund the employer's contributions, or for the employer to use them for any economic purpose other than regulatory benefits, there is no identifiable economic benefit to be recognized on the balance sheet

The surplus or deficit of a pension fund is based on its unaudited interim accounts at 30 September 2016.

Pension funds

BCV Group employees are members of the "Caisse de pensions de la Banque Cantonale Vaudoise (CP BCV)." Its purpose is to insure its members against the economic consequences of retirement, disability and death by guaranteeing benefits in accordance with the terms of the pension-fund regulations. It is a provider of the compulsory insurance introduced under the Federal Act on Occupational Retirement, Survivors' and Disability Pension Plans (LPP), and provides coverage in excess of the minimum LPP requirements.

Senior executives insured with the CP BCV are also members of the "Fondation de prévoyance complémentaire de la Banque Cantonale Vaudoise," the purpose of which is to insure its members against the economic consequences of retirement, disability and death by guaranteeing benefits in accordance with the terms of the pension-fund regulations.

The "Fonds de prévoyance en faveur du personnel de la BCV" is an employer-operated fund that assists BCV employees in dealing with the economic consequences of old age, disability, illness and early retirement.

5.10 Issued structured products (in CHF millions)

| Underlying risk of embedded derivative | Carrying value | | | | Total |
|--|---|---|------------------------------|-------------------------|--------------|
| | Single treatment | | Separate treatment | | |
| | Recognized in trading portfolio liabilities | Recognized in other financial liabilities at fair value | Value of the host instrument | Value of the derivative | |
| Interest-rate instruments | – | 13 | 0 | 0 | 13 |
| Equity securities | – | 707 | 933 | – 46 | 1 595 |
| Foreign currencies | – | 50 | 33 | – 0 | 83 |
| Commodities and precious metals | – | 0 | 0 | 0 | 0 |
| Total | 31 / 12 / 16 | 771 | 966 | – 46 | 1 691 |
| | 31 / 12 / 15 | – | 1 016 | – 73 | 1 609 |

All structured products issued by the Bank have a debenture component.

Single accounting treatment

Structured products without an interest rate component, i.e., participation structured products (representing a fraction of an equity basket) and yield-enhancement structured products, issued by the Bank are each treated as a single position. They are recognized under “Other financial liabilities at fair value,” and their fair value is based on a quoted market price or a valuation model. Subsequent revaluations are recognized under “Net trading income and fair-value adjustments.”

Separate accounting treatment

Yield-enhancement, participation and capital-protection structured products issued by the Bank and containing an interest rate component are each treated as two separate positions.

For these structured products, the host instrument and the embedded derivative(s) are treated separately. The host instrument is recorded under “Bonds” at nominal value as a debt issued by the Bank. Embedded derivatives are carried as either positive or negative mark-to-market values. Subsequent variations are recognized under “Net trading income and fair-value adjustments.”

Interest accrued in the interest-rate component is recorded under “Interest expense” using the accrual method.

5.11 Provisions

Reserves for general banking risks (in CHF millions)

| | Status at year-end | Used as allocated | Changes in scope of consolidation | Currency translation differences | Recoveries, overdue interest | New provisions charged to income statement | Releases credited to income statement | Status at year-end |
|--|--------------------|-------------------|-----------------------------------|----------------------------------|------------------------------|--|---------------------------------------|--------------------|
| | 2015 | | | | | | | 2016 |
| Provisions for credit risk | 2 | | | | | | - 1 | 1 |
| Other provisions | 9 | - 3 | | 0 | 0 | 2 | - 0 | 9 |
| Total provisions | 11 | - 3 | 0 | 0 | 0 | 2 | - 1 | 10 |
| Reserves for general banking risks¹⁾ | 701 | | | | | | | 701 |
| Provisions for credit risk and country risk | 77 | - 11 | 0 | 0 | 10 | 20 | - 16 | 80 |
| <i>of which provisions for impaired loans</i> | 72 | - 11 | | | 10 | 20 | - 15 | 76 |
| <i>of which provisions for latent risks</i> | 5 | | | | | | - 1 | 4 |

¹⁾ Reserves for general banking risks are taxable

5.12 Share capital (in CHF millions)

| | 2016 | | 2015 | |
|--|-----------------------------|-----------------|-----------------------------|-----------------|
| | Number of shares (in units) | Total par value | Number of shares (in units) | Total par value |
| Share capital | | | | |
| Registered share, fully paid-in | | Par value | | CHF 10.00 |
| Status at 1 January | 8 606 190 | 86 | 8 606 190 | 86 |
| No movement | 0 | 0 | 0 | 0 |
| Status at 31 December | 8 606 190 | 86 | 8 606 190 | 86 |
| <i>of which share capital qualifying for dividends</i> | | 86 | | 86 |

Participation certificate capital

BCV does not have any participation certificate capital.

Conditional capital

BCV does not have any conditional capital.

Authorized capital

BCV does not have any authorized capital.

5.13 Stock options and shares granted to members of the Board of Directors, Executive Board members and other employees Employee share-ownership plans

| | 2016 | | 2015 | |
|-----------------------------------|----------------------|-------------------|----------------------|-------------------|
| | Shares (in units) | Value (in CHF) | Shares (in units) | Value (in CHF) |
| Members of the Board of Directors | 132 | 90 667 | 112 | 72 900 |
| Executive Board members | 3 584 | 1 897 890 | 4 522 | 2 243 820 |
| Other employees | 28 596 | 10 086 235 | 34 729 | 12 780 083 |
| Total | 32 312 | 12 074 792 | 39 363 | 15 096 803 |

No stock options have been granted to members of the Board of Directors, Executive Board members or other employees.

Employee share ownership Annual performance-based compensation

The Chairman of the Board of Directors receives a portion of his fixed compensation in shares with a lock-up period of five to ten years.

For Executive Board members and department heads, 30% of their annual performance-based compensation must be taken in BCV shares with a lock-up period of five to ten years.

Other employees receiving annual performance-based compensation of CHF 21,000 or more may opt for full payment in cash, or 70% in cash and 30% in BCV shares with a lock-up period of 3 years. In the latter case, BCV increases the portion of shares by 30%.

The Chairman of the Board of Directors will receive his shares at the end of April 2017. The number of shares will be calculated based on the closing market price on 24 March 2017, rounded up to the nearest whole number.

Executive Board members are allocated shares subject to approval at the Shareholders' Meeting. The number of shares allocated will be calculated based on the closing market price on 8 May 2017, rounded up to the nearest whole number.

Other employees will receive their shares at the end

of April 2017. The number of shares allocated will be calculated based on the closing market price on 24 March 2017, rounded up to the nearest whole number. These employees have until 6 April 2017 to make their decision. As their decision was not known at the time this report was published, the amount shown in the above table corresponds to the maximum amount payable in the form of shares.

The market prices used to calculate the number of shares will be those on 24 March 2017 and 8 May 2017 (see above), so they were not known at the time this report was published. As a result, the number of shares was calculated based on the closing market price on 9 March 2017, the date of the Board of Directors' final decision on this compensation.

Share-ownership plan

The Executive Board and other BCV employees were given the opportunity to subscribe to the share-ownership plan in April 2016 on the following terms:

- The number of shares that may be purchased is determined by the level of responsibility inherent in the employee's position.
- The subscription period ran from 10–22 March 2016.
- The subscription price was set at CHF 495 per share, and the market price used was CHF 653 (closing price on 10 March, the first day of the subscription period).

The amount shown in the table on the previous page corresponds to the number of shares subscribed multiplied by CHF 158, which is the difference between the market price of CHF 653 and the subscription price of CHF 495.

Long-term performance-based compensation

At the beginning of each three-year share-ownership plan, participants are informed of the number of shares that will be allocated if all objectives are met in full. At the end of each plan, the Bank informs participants of the extent to which objectives have been met based on the Bank's financial results and strategic and qualitative performance. The number of shares initially allocated is multiplied by the level of attainment of the objectives in order to determine

the number of shares allocated to each participant.

The amounts shown in the table on the previous page correspond to the expense recorded in 2016 for the various plans in progress.

Free shares

The Bank awards three BCV shares to trainees and university interns who successfully complete their training and are then hired by BCV.

The number allocated and their value, based on the market price on the last business day of the month before the shares are awarded, are also shown in the table.

5.14 Receivables and commitments with respect to related parties (in CHF millions)

| | 31 / 12 / 16 | | 31 / 12 / 15 | |
|--|--------------|------------|--------------|------------|
| | Receivable | Commitment | Receivable | Commitment |
| Canton of Vaud - significant shareholder | 6 | 2243 | 5 | 1528 |
| Group companies | 14 | 83 | 18 | 209 |
| Affiliated companies | 116 | 471 | 36 | 203 |
| Governing bodies | 32 | 5 | 32 | 12 |

qualified holding are considered affiliated companies.

Corporations organized under public law in Vaud Canton and public-private entities in which Vaud Canton has a

Transactions with related parties were conducted on market terms.

5.15 Significant shareholder

| | 31 / 12 / 16 | | | 31 / 12 / 15 | | |
|------------------------------|--------------------------------|-----------------|--------|--------------------------------|-----------------|--------|
| | Number of shares (in units) | Total par value | Stake | Number of shares (in units) | Total par value | Stake |
| Voting rights | | | | | | |
| Vaud Canton, direct interest | 5762252 | 57.6 | 66.95% | 5762252 | 57.6 | 66.95% |

5.16 Treasury shares and breakdown of share capital

| Number of shares (in units) | Average transaction price | Total | Treasury shares |
|--|---------------------------|------------------|-----------------|
| Status at 31 December 2015 | | 8 606 190 | 33 105 |
| <i>of which shares reserved for long-term performance-based compensation</i> | | | 19 977 |
| Purchases | 640 | | 53 315 |
| Sales | 613 | | – 54 176 |
| Status at 31 December 2016 | | 8 606 190 | 32 244 |
| <i>of which shares reserved for long-term performance-based compensation</i> | | | 16 076 |

The breakdown of share capital is provided in note 5.12, page 169.

Treasury shares were traded at market prices. The proceeds of the sale of treasury shares, totaling CHF 0.4m, were recognized under “Capital reserve.”

Non-distributable reserves

If the combined total of regulatory retained earnings and the regulatory capital reserve does not exceed half the amount of the Bank’s share capital (i.e., CHF 43m), these line items can be used only to cover losses or for measures designed to sustain the company in the event of an operating loss. There are no regulatory restrictions on how optional reserves can be used.

The Bank must set part of its reserves aside in order to meet regulatory capital requirements.

5.17 Compensation and loans granted to members of the Board of Directors and Executive Board

5.17.1 Compensation and loans granted to current members of the Board of Directors and the Executive Board

Compensation breakdown (see page 175)

Members of the Board of Directors

For 2016, the seven members of the Board of Directors in office at 31 December 2016 were accorded total compensation of CHF 1,490,161. This includes annual fixed compensation of CHF 90,667 for the Chairman that will be paid in April 2017 in the form of BCV shares with a lock-up period of five to ten years. The number of shares allocated will be calculated based on the closing market price on 24 March 2017. Benefit expense resulting from compensation to the Board of Directors totaled CHF 130,284 for occupational pensions and CHF 145,899 for other benefits (social security, unemployment insurance, accident insurance and family allowances).

Compensation comprises fees, remuneration and expenses.

For the members of the Board committees – the Audit and Risk Committee and the Compensation, Promotions and Appointments Committee – annual compensation was set as follows: CHF 40,000 for the chairman and CHF 20,000 for the other members of the Audit and Risk Committee; and CHF 20,000 for the chairman and CHF 10,000 for the other members of the Compensation, Promotions and Appointments Committee.

The average compensation of Board members, excluding the Chairman, amounted to CHF 108,866.

Since 1 November 2002, serving members of the Board of Directors have not been granted any preferential terms for banking services.

Members of the Executive Board

For 2016, the nine members of the Executive Board in office at 31 December 2016 were accorded total compensation of CHF 7,890,335. This includes annual performance-based compensation for an aggregate amount of CHF 3,482,000, subject to approval at the Shareholders' Meeting on 27 April 2017. If approved, this amount will be paid in May 2017 in two parts: CHF 2,521,400 in cash and the remaining CHF 960,600 in the form of shares locked up for between five and ten years. Benefit expense resulting from compensation to the Executive Board totaled CHF 1,303,106 for occupational pensions and CHF 773,634 for other benefits (social security, unemployment insurance, accident insurance, income replacement and family allowances), subject to approval of the proposed annual performance-based compensation at the Shareholders' Meeting.

Allocation of shares during 2016

Members of the Board of Directors

For 2016, only the Chairman of the Board will receive a portion of his annual performance-based compensation in the form of locked-up BCV shares, of an amount equal to CHF 90,667. The number of shares will be determined in accordance with the closing share price on 24 March 2017. No other member of the Board of Directors is eligible for any type of share allocation.

Members of the Executive Board

For 2016, Executive Board members in office at 31 December 2016 will receive a number of locked-up BCV shares equivalent to 30% of their annual performance-based compensation. The number of shares will be determined in accordance with the closing share price on 8 May 2017. They also subscribed to 700 locked-up shares under the employee share-ownership program. They paid a subscription price of CHF 495, while the share price at the time of purchase was CHF 653. Every year the Board of Directors determines the subscription price based on the current share price and sets the number of shares to which the Executive Board may subscribe.

Under the 2014-2016 long-term performance-based salary plan, 2,372 shares were allocated to Executive Board members (see page 84 in section 5 of the Corporate Governance chapter).

Other fees and compensation

Members of the Board of Directors and Executive Board received no fees or other compensation from BCV that are not included in the above compensation. Moreover, all fees and other amounts received by Executive Board members representing BCV on the boards of directors of other companies are remitted to the Bank. In 2016, such payments to the Bank amounted to CHF 270,880.

Loans to members of the Board of Directors and Executive Board

Serving members of the Board of Directors are not accorded preferential terms on loans granted to them. For members of the Executive Board, as well as for all employees, the interest on variable-rate first mortgages was 1.9% at 31 December 2016. The interest charged on Libor mortgage loans and on medium- and long-term fixed-rate loans was between 0.25% and 0.85% above market rates, depending on the term of the loan.

Share ownership

Members of the Board of Directors

Under a resolution adopted by the Board of Directors on 7 October 2002, each director is required to own a minimum of 100 BCV shares.

At 31 December 2016, directors and their close relations held a total of 7,213 BCV shares.

Members of the Executive Board

At 31 December 2016, Executive Board members and their close relations held 20,652 BCV shares.

Compensation of members of the Board of Directors for the 2016 financial year (in CHF)

| | Olivier Steimer | Paul-André Sanglard | Jack Clemons | Ingrid Deltenre | Reto Donatsch | Peter Ochsner | Luc Recordon | Total | Average compensation |
|---------------------------------------|-----------------|---------------------|----------------------------|-----------------|----------------|--------------------------|----------------|------------------|----------------------|
| | Chairman | Vice Chairman | Member since 21 April 2016 | Member | Member | Member since 1 July 2016 | Member | | Excluding Chairman |
| Fees | 756 336 | 108 889 | 65 973 | 95 000 | 95 000 | 47 500 | 95 000 | 1 263 698 | 84 560 |
| Committee-related compensation | | 20 000 | 6 945 | 10 000 | 20 000 | 20 000 | 16 945 | 93 890 | 15 648 |
| Share-based compensation ¹ | 50 628 | | | | | | | 50 628 | 0 |
| Other | 30 000 | 10 000 | 6 945 | 10 000 | 10 000 | 5 000 | 10 000 | 81 945 | 8 658 |
| Total | 836 964 | 138 889 | 79 863 | 115 000 | 125 000 | 72 500 | 121 945 | 1 490 161 | 108 866 |
| <i>Previous year</i> | | | | | | | | 1 730 815 | 133 333 |
| Occupational pension | 130 284 | | | | | | | 130 284 | |
| Other benefits ² | 65 063 | 14 545 | 11 283 | 14 499 | 12 742 | 10 445 | 17 322 | 145 899 | 13 473 |
| <i>Previous year</i> | | | | | | | | 146 687 | |
| <i>Occupational pension</i> | | | | | | | | 171 396 | 16 431 |
| <i>Other benefits²</i> | | | | | | | | | |

¹⁾ The number of shares will be calculated based on the market price on 24 March 2017, and rounded up to the nearest unit. The value of the shares (in Swiss francs) is discounted according to the duration of the share lock-up period.

²⁾ Social security, unemployment insurance, accident insurance and family allowances

Compensation of members of the Executive Board for the 2016 financial year (in CHF)

| | Total | | Pascal Kiener CEO | |
|---|----------------------|------------------|----------------------|------------------|
| | Shares (in units) | | Shares (in units) | |
| Fixed salary | | 4 648 388 | | 960 000 |
| Annual performance-based compensation paid in cash ¹ | | 2 521 400 | | 420 000 |
| Annual performance-based compensation paid in shares ^{1,2} | | 635 057 | | 100 510 |
| Shares acquired under employee share-ownership program ³ | 700 | 37 290 | 0 | 0 |
| Stock options (BCV has no employee stock-option plan) | 0 | 0 | 0 | 0 |
| Other | | 48 200 | | 6 000 |
| Total | | 7 890 335 | | 1 486 510 |
| <i>Previous year</i> | | 7 911 798 | | |
| 2014-2016 long-term performance-based compensation plan | | | | |
| Shares allocated at CHF 690.50 per share ⁴ | 2 372 | 1 637 866 | 305 | 210 603 |
| <i>Previous year</i> | 2 103 | 1 375 362 | | |
| Total | | 9 528 201 | | 1 697 113 |
| <i>Previous year</i> | | 9 287 160 | | |
| Occupational pension | | 1 303 106 | | 194 157 |
| Other benefits ⁵ | | 773 634 | | 135 263 |
| <i>Previous year</i> | | | | |
| <i>Occupational pension</i> | | 1 227 590 | | |
| <i>Other benefits⁵</i> | | 753 722 | | |

¹⁾ Subject to approval at the 2017 Annual Shareholders' Meeting

²⁾ The number of shares will be calculated based on the market price on 8 May 2017, and rounded up to the nearest unit. The value of the shares (in Swiss francs) is discounted according to the duration of the share lock-up period.

³⁾ Difference between the subscription price (CHF 495) and the market price on 10 March 2016 (CHF 653) at its discounted value

⁴⁾ Market price on 9 March 2017

⁵⁾ Social security, unemployment insurance, accident insurance, income replacement and family allowances

Loans to members of governing bodies (in CHF)

| | Position | Nominal | Secured | Unsecured | 31 / 12 / 16 Drawn down |
|------------------------------------|---------------|-------------------|-------------------|-----------|----------------------------|
| Board of Directors | | | | | |
| Olivier Steimer | Chairman | 3 200 000 | 3 200 000 | 0 | 3 200 000 |
| Paul-André Sanglard | Vice Chairman | 0 | | | 0 |
| Jack Clemons | Member | 440 000 | 440 000 | 0 | 440 000 |
| Ingrid Deltenre | Member | 0 | | | 0 |
| Reto Donatsch | Member | 0 | | | 0 |
| Peter Ochsner | Member | 0 | | | 0 |
| Luc Recordon | Member | 0 | | | 0 |
| Total | | 3 640 000 | 3 640 000 | 0 | 3 640 000 |
| Previous year | | 3 200 000 | 3 200 000 | 0 | 3 200 000 |
| Executive Board | | | | | |
| Total | | 30 519 000 | 30 519 000 | 0 | 29 002 000 |
| Previous year | | 30 266 000 | 30 266 000 | 0 | 25 841 000 |
| Jean-François Schwarz ¹ | Member | 8 950 000 | 8 950 000 | 0 | 8 229 000 |

¹⁾ Largest individual loan granted to an Executive Board member

No loans were granted to close relations (i.e., persons living under the same roof) of the members of the Board of Directors and Executive Board on terms not in keeping with market practice.

Loans to companies with links to members of governing bodies (in CHF)

| | Nominal | Secured | Unsecured | 31 / 12 / 16 Drawn down |
|---------------|-----------|-----------|-----------|----------------------------|
| Total | 0 | 0 | 0 | 0 |
| Previous year | 8 000 000 | 5 610 000 | 2 390 000 | 2 787 000 |

Share and option ownership

| | | 31 / 12 / 16 | 31 / 12 / 15 |
|-----------------------------|---------------|----------------------|----------------------|
| | | Shares (in units) | Shares (in units) |
| Board of Directors | | | |
| Olivier Steimer | Chairman | 5 864 | 5 754 |
| Paul-André Sanglard | Vice Chairman | 500 | 500 |
| Jack Clemons ¹⁾ | Member | 100 | |
| Ingrid Deltenre | Member | 174 | 100 |
| Reto Donatsch | Member | 100 | 100 |
| Peter Ochsner ¹⁾ | Member | 300 | |
| Luc Recordon | Member | 175 | 175 |
| Total | | 7 213 | 6 629 |

¹⁾ Not a member of the Board of Directors in 2015

| | | | |
|------------------------|----------------------------|---------------|---------------|
| Executive Board | | | |
| Pascal Kiener | CEO | 3 237 | 5 650 |
| Aimé Achard | Business Support | 2 512 | 2 082 |
| Stefan Bichsel | Asset Management & Trading | 4 003 | 3 500 |
| Gérard Haerberli | Private Banking | 2 023 | 2 391 |
| Thomas W. Paulsen | CFO | 1 222 | 1 393 |
| Bertrand Sager | Credit Management | 3 404 | 3 366 |
| Jean-François Schwarz | Corporate Banking | 3 448 | 3 179 |
| José François Sierdo | Retail Banking | 803 | 549 |
| Total | | 20 652 | 22 110 |

Members of the Board of Directors and Executive Board held no options at 31 December 2016.

5.17.2 Compensation and loans granted to former members of the Board of Directors and Executive Board

At 31 December 2016, there were no outstanding loans to former members of the Executive Board on the preferential terms accorded to employees.

Compensation of former members of the Board of Directors and Executive Board for the 2016 financial year

The two members of the Board of Directors whose terms ended at the 2016 Annual Shareholders' Meeting, Stephan Bachmann and Pierre Lamunière, received total compensation of CHF 89,417 in 2016.

Loans granted to former members of the Board of Directors and Executive Board

Since 1 November 2002, serving members of the Board of Directors have not been granted any preferential terms for banking services, while former members who held office prior to this date continue to receive preferential terms that are identical to those of employees and in line with current market practice.

5.18 Breakdown of assets by solvency of the country group in which the risk is domiciled (in CHF millions)

| Internal country rating | Standard & Poor's rating | 31 / 12 / 16 | | 31 / 12 / 15 | |
|-----------------------------|--------------------------|----------------|---------------|----------------|---------------|
| | | Absolute value | as % of total | Absolute value | as % of total |
| 1 | AAA to AA- | 2 593 | 82 | 2 558 | 80 |
| 2 | A+ to A- | 173 | 5 | 269 | 8 |
| 3 | BBB+ to BBB- | 72 | 2 | 87 | 3 |
| 4 | BB+ to BB- | 140 | 4 | 127 | 4 |
| 5 to 7 | B+ to B- | 112 | 4 | 38 | 1 |
| 8 | CCC+ to C | 53 | 2 | 68 | 2 |
| Not rated | Not rated | 15 | 0 | 42 | 1 |
| Net foreign exposure | | 3 158 | 100 | 3 189 | 100 |

The rating categories are based on Standard & Poor's ratings.

5.19 Special "Caisse d'Epargne Cantonale Vaudoise" account (in CHF millions)

Guaranteed by the Canton of Vaud and managed by Banque Cantonale Vaudoise, by decree of 20 June 1995

| | 2016 | 2015 |
|--|--------------|--------------|
| Capital on deposit at 1 January | 227.0 | 245.5 |
| Movements: | | |
| Net payment surplus during the financial year | - 16.6 | - 18.6 |
| Capitalization of net interest at 31 December | 0.0 | 0.1 |
| Net change | - 16.6 | - 18.5 |
| Total capital on deposit at 31 December | 210.4 | 227.0 |
| <i>of which guaranteed by the Canton of Vaud</i> | <i>138.0</i> | <i>150.3</i> |

| | 31 / 12 / 16 | 31 / 12 / 15 | Change |
|---|--------------|--------------|---------------|
| Breakdown by type of service | | | |
| Registered savings books and accounts | 142.0 | 149.1 | - 7.1 |
| Senior citizens' savings books and accounts | 39.7 | 46.6 | - 6.9 |
| Bearer savings books | 27.4 | 29.7 | - 2.3 |
| Youth savings books and accounts | 1.3 | 1.6 | - 0.3 |
| Total | 210.4 | 227.0 | - 16.6 |

6. Notes to off-balance-sheet transactions

6.1 Fiduciary transactions (in CHF millions)

| | 31 / 12 / 16 | 31 / 12 / 15 | Change absolute | Change as % |
|--|--------------|--------------|--------------------|----------------|
| Fiduciary investments with third parties | 98 | 79 | 19 | 24 |
| Fiduciary transactions | 98 | 79 | 19 | 24 |

6.2 Assets under management

As BCV is not required to disclose these figures, they are provided voluntarily and only on a consolidated basis (see note 11.4 to the consolidated financial statements).

7. Notes to the income statement

7.1 Refinancing of trading positions Negative interest

As these positions are not material, they are not disclosed separately.

7.2 Net trading income and fair-value adjustments (in CHF millions)

| Breakdown by business sector | 2016 | 2015 | Change absolute | Change as % |
|------------------------------|--------------|--------------|--------------------|----------------|
| Retail Banking | 18.6 | 21.5 | - 2.9 | - 13 |
| Corporate Banking | 9.8 | 10.1 | - 0.3 | - 3 |
| Wealth Management | 10.2 | 12.8 | - 2.6 | - 20 |
| Trading | 59.3 | 62.6 | - 3.2 | - 5 |
| Corporate Center | 29.6 | 32.5 | - 2.9 | - 9 |
| Total | 127.6 | 139.5 | - 11.9 | - 9 |

Trading income and fair-value adjustments

| | | | | |
|--|--------------|--------------|---------------|------------|
| Fixed-income instruments (including funds) | 3.2 | 1.5 | 1.7 | 110 |
| Equity securities (including funds) | 20.6 | 21.1 | - 0.5 | - 2 |
| Currencies and precious metals | 110.7 | 123.5 | - 12.8 | - 10 |
| Total trading income and fair-value adjustments | 134.5 | 146.1 | - 11.6 | - 8 |
| <i>of which fair-value adjustments</i> | 20.3 | 20.7 | - 0.4 | - 2 |
| <i>of which fair-value adjustments on assets</i> | 47.3 | - 9.8 | 57.1 | n/a |
| <i>of which fair-value adjustments on liabilities</i> | - 26.9 | 30.5 | - 57.4 | n/a |
| Trading fee expense | - 6.9 | - 6.6 | 0.3 | 5 |
| Net trading income and fair-value adjustments | 127.6 | 139.5 | - 11.9 | - 9 |

7.3 Personnel costs (in CHF millions)

| | | | | |
|--|--------------|--------------|------------|----------|
| Fixed and variable compensation | 224.8 | 226.5 | - 1.7 | - 1 |
| <i>of which charges related to share-based compensation and other variable compensation (including the portion paid in cash)</i> | 30.5 | 42.5 | - 12.0 | - 28 |
| Employee benefits | 22.2 | 22.1 | 0.1 | 1 |
| Contributions to staff pension funds | 34.4 | 32.2 | 2.2 | 7 |
| Other personnel expenses | 14.3 | 14.4 | - 0.1 | - 0 |
| Total | 295.8 | 295.2 | 0.6 | 0 |

7.4 Other operating expenses (in CHF millions)

| | 2016 | 2015 | Change absolute | Change as % |
|--|--------------|--------------|--------------------|----------------|
| Premises | 19.4 | 19.7 | -0.3 | -1 |
| IT | 70.4 | 69.1 | 1.3 | 2 |
| Machinery, furniture, vehicles, etc. | 3.8 | 3.6 | 0.2 | 4 |
| Office supplies | 1.0 | 1.1 | -0.1 | -7 |
| Telecommunications and shipping | 7.6 | 8.2 | -0.6 | -7 |
| Marketing and communications, gifts and subscriptions | 17.2 | 17.3 | -0.1 | -0 |
| Financial information | 11.7 | 12.7 | -1.0 | -8 |
| Auditor fees | 1.7 | 2.2 | -0.5 | -25 |
| <i>of which for financial and prudential audits</i> | 1.5 | 1.8 | -0.3 | -15 |
| <i>of which for other services</i> | 0.1 | 0.4 | -0.3 | -70 |
| Other professional fees | 3.7 | 3.7 | 0.0 | 1 |
| Payment transactions | 10.7 | 11.9 | -1.2 | -10 |
| Issuing fees | 1.4 | 2.5 | -1.1 | -42 |
| Miscellaneous operating expenses | 5.7 | 5.8 | -0.1 | -1 |
| <i>of which charges for the guarantee by the Canton of Vaud¹⁾</i> | 0.4 | 0.4 | -0.0 | -6 |
| Total | 154.4 | 157.8 | -3.4 | -2 |

¹⁾ Limited guarantee by the Canton of Vaud for deposits with the Caisse d'Epargne Cantonale Vaudoise, and managed by BCV

7.5 Other provisions and losses (in CHF millions)

| | | | | |
|--------------------------|------------|-------------|--------------|------------|
| Miscellaneous provisions | 0.9 | 19.8 | -18.9 | -95 |
| Miscellaneous losses | 1.3 | 1.5 | -0.2 | -12 |
| Total | 2.2 | 21.3 | -19.1 | -90 |

7.6 Extraordinary income (in CHF millions)

| | | | | |
|------------------------------------|------------|-------------|--------------|------------|
| Disposals of equity holdings | 5.0 | 26.6 | -21.6 | n/s |
| Disposals of tangible fixed assets | 0.6 | 0.0 | 0.6 | n/s |
| Other extraordinary income | 0.5 | 2.0 | -1.5 | -73 |
| Total | 6.1 | 28.6 | -22.5 | -79 |

7.7 Taxes (in CHF millions)

| | | | | |
|--|-------------|-------------|--------------|------------|
| Direct federal tax | 24.4 | 26.5 | -2.1 | -8 |
| Cantonal and municipal taxes | 55.9 | 64.3 | -8.4 | -13 |
| Total | 80.3 | 90.8 | -10.5 | -12 |
| Weighted average tax rate, based on operating profit | 21% | 21% | | |

8. Proposals by the Board of Directors

At the Annual Shareholders' Meeting to be held on 27 April 2017, the Board of Directors will recommend the following appropriation of profit and distributions:

8.1 Appropriation of profit

The proposed allocation of available earnings of CHF 315.2m is as follows:

| | Dividend in CHF per registered share | Number of shares (in units) | Appropriation (in CHF millions) |
|--|---|--------------------------------|------------------------------------|
| Payment of an ordinary dividend | 23.00 | 8 606 190 | 197.9 |
| Allocation to regulatory retained earnings | | | 0 |
| Allocation to optional retained earnings | | | 117.2 |
| | | | 315.2 |

If this resolution is adopted, the dividend will be payable, after deduction of Swiss withholding tax, at the Bank's head office and branches beginning on 4 May 2017.

8.2 Other distributions

In addition, a distribution of CHF 86.1m drawn from tax-exempt paid-in capital will be proposed:

| | Amount in CHF per registered share | Number of shares (in units) | Distribution (in CHF millions) |
|--|---------------------------------------|--------------------------------|-----------------------------------|
| Distribution drawn from tax-exempt paid-in capital | 10.00 | 8 606 190 | 86.1 |
| | | | 86.1 |

If this resolution is adopted, the distribution – which will not be subject to Swiss withholding tax – will be payable at the Bank's head office and branches beginning on 4 May 2017.



Statutory Auditor's Report

To the General Meeting of Banque Cantonale Vaudoise, Lausanne

Report on the Audit of the Parent Company Financial Statements

Opinion

We have audited the financial statements of Banque Cantonale Vaudoise, which comprise the balance sheet as at 31 December 2016, the income statement and the statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements (pages 158 to 182) for the year ended 31 December 2016 comply with Swiss law and the company's articles of incorporation.

Basis for Opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority



Credit risk identification methods and valuation of the related loan impairment charges



On-balance-sheet recording and valuation of the structured products issued by the bank

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



Credit risk identification methods and valuation of the related loan impairment charges

Key Audit Matter

Lending operations are one of the bank’s main activities and represent approximately two thirds of its balance sheet as at 31 December 2016. The valuation of a counterparty’s default risk relies largely on the use of rating methods developed by the bank. The valuation of the related loan impairment charges relies on an analysis method that takes into account various elements such as market factors, the client’s estimated willingness to repay and financial capacity or the estimation of the collateral’s value.

The identification of risks and the valuation of the related loan impairment charges thus rely on models and analyses that imply an element of judgement by the Board of Directors and management. Exposures that create greater uncertainty are typically those that result from unsecured loans or those that are subject to a collateral’s loss of value.

Our response

Our procedures consisted in particular in assessing and testing the key controls related to the granting, recording and monitoring of loans as well as the methodology used for the identification of default risk and the valuation of the loan impairment charges.

For a sample of non-impaired exposures, we assessed the debtors’ capacity to fulfil their obligations. We compared our findings with the assessment of the default risk performed by the bank using its counterparty rating process.

Regarding receivables that are considered as impaired or as presenting latent risks, our procedures consisted, among others, of assessing the evolution of the relation between the loan impairment and the concerned receivables as a whole. For a sample of individual receivables that are considered as impaired or as presenting latent risks, we assessed the debtors’ financial standing as well as the valuation of collaterals and we compared our findings with the assumptions and factors taken into account by the bank when calculating the required loan impairment charges.

For further information on the credit risk identification methods and the valuation of the related loan impairment charges, refer to the following notes to the consolidated financial statements of Banque Cantonale Vaudoise as at 31 December 2016:

- Note 7.2 “Credit risk” (p. 115 to 117 of the Annual Report)
- Note 10.2 “Risk mitigants for loans and off-balance-sheet transactions, impaired loans” (p. 121 of the Annual Report)



On-balance-sheet recording and valuation of the structured products issued by the bank

Key Audit Matter

The bank offers a wide range of securities trading services comprising in particular the development and issuance of structured products. As at 31 December 2016, the structured products recorded under “Other financial liabilities at fair value” and “Bonds and mortgage-backed bonds” represent a net balance sheet liability of CHF 1.7 billion.

The recognition and valuation of these instruments are based on principles defined by the Board of Directors and management, whose application requires an element of judgement and estimate. The uncertainty relative to the positions’ fair value valuation is higher when valuation models are used.

Our response

Our audit work consisted in assessing and testing the processes and key controls related to recognition as well as to the methods and parameters used for the valuation of the structured products issued by the bank. Our procedures included controls over price verification and recording of products issued.

For a sample of structured products issued by the bank, we assessed whether these were properly recorded and presented in the bank’s financial statements. We also examined the adequacy of the valuation methods used as well as the parameters applied by the bank. We compared these elements with independent sources and available market data. When performing these procedures, we involved our internal valuation specialists.

Regarding the structured products carried at fair value, we assessed whether the products were properly classified in this category and we tested whether they were properly valued and recorded. Concerning the structured products valued at amortized cost, we assessed whether the rules governing the separation of the derivative from the host instrument were properly applied, and whether the host instrument and the embedded derivative were properly recorded and valued.

For further information on the on-balance-sheet recording and the valuation of the structured products issued by the bank, refer to the following notes to the consolidated financial statements of Banque Cantonale Vaudoise as at 31 December 2016:

- Note 6.4.7 “Other financial assets at fair value” (p. 109 of the Annual Report)
- Note 10.14 “Issued structured products” (p. 129 of the Annual Report)



Responsibility of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

KPMG SA

A handwritten signature in blue ink, appearing to read 'Olivier Gauderon'.

Olivier Gauderon
Licensed Audit Expert
Auditor in Charge

A handwritten signature in blue ink, appearing to read 'Philippe Ruedin'.

Philippe Ruedin
Licensed Audit Expert

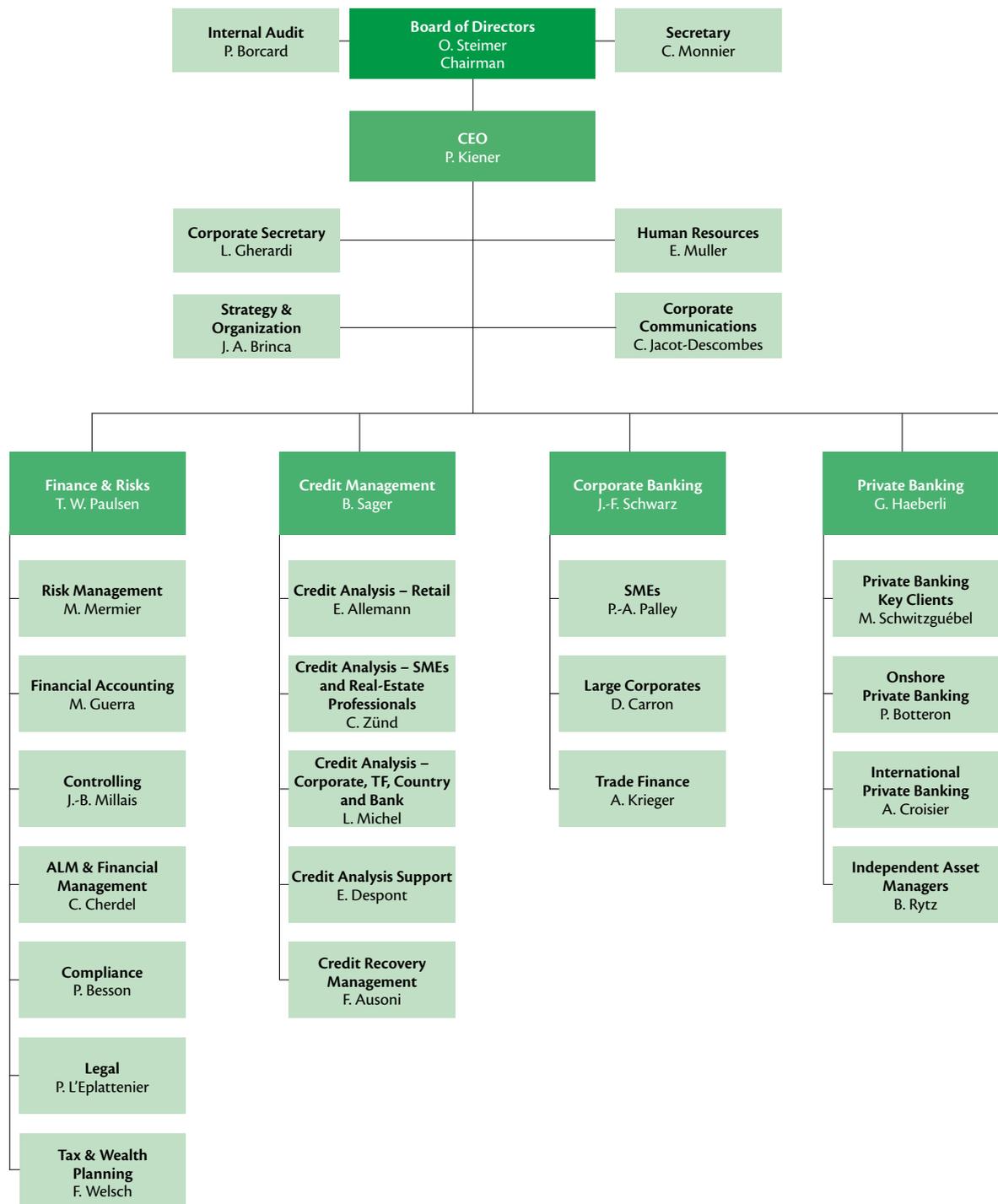
Geneva, 10 March 2017

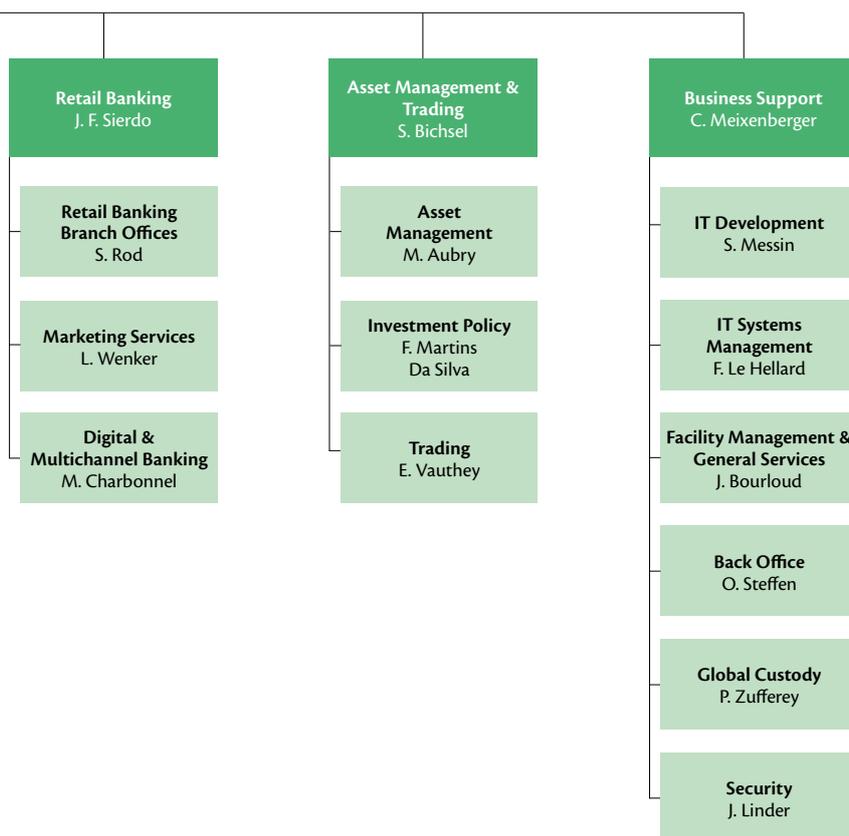
KPMG SA, Rue de Lyon 111, CH-1203 Geneva

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Organization Chart

As of 1 March 2017





Retail Network

As of 1 March 2017



Regional Managers

As of 1 March 2017

Broye region

Retail banking
Private banking
SME

Patrick Balzli
André Cherbuin
Fabrice Chollet

Morges region

Retail banking
Private banking
SME

Philippe Diserens
Daniel Vuffray
Patrick Blanc

Chablais / Vaud Alps region

Retail banking
Private banking
SME

Eric Barroud
Vincent Mottier
Sébastien Roduit

Nord vaudois region

Retail banking
Private banking
SME

Steve Magnenat
Adrian Kocher
Bernard Mettraux

Gros-de-Vaud region

Retail banking
Private banking
SME

Pascal Udry
Pierre-Yves Zimmermann
Alexandre Berthoud

Nyon region

Retail banking
Private banking
SME

Jean-Daniel Dreifuss
Jean-Michel Isoz
Jean-Daniel Gebhard

Lausanne region

Retail banking
Private banking
SME

Thierry Magnin
Pascal Aubry
Henri-Pierre Monney

Riviera region

Retail banking
Private banking
SME

Pierre-Alain Favre
Christophe Millius
Didier Muller

Lavaux region

Retail banking
Private banking
SME

David Platel
Olivier Engler
Cédric Ottet

Branch Offices

As of 1 March 2017

Broye region

Avenches

Rue Centrale 4
Case postale 47
1580 Avenches

Lucens

Avenue de la Gare 4 A
Case postale 69
1522 Lucens

Payerne

Rue du Temple 9
Case postale 64
1530 Payerne

Chablais / Vaud Alps region

Aigle

Rue du Collège 2
Case postale 449
1860 Aigle

Bex

Rue Centrale 5
Case postale 62
1880 Bex

Château-d'Oex

Grand-Rue 82
Case postale 172
1660 Château-d'Oex

Les Diablerets

Les Ormonts 7
Case postale 28
1865 Les Diablerets

Leysin

Place du Marché
Case postale 83
1854 Leysin

Villars

Avenue Centrale 119
Case postale 7
1884 Villars

Villeneuve

Grand-Rue 1
Case postale 27
1844 Villeneuve

Gros-de-Vaud region

Cheseaux-sur-Lausanne

Rue du Pâquis 1
Case postale 68
1033 Cheseaux-sur-Lausanne

Cugy

Centre commercial Migros
Route de Bottens 1
Case postale 8
1053 Cugy

Echallens

Place de la Gare 7
Case postale 31
1040 Echallens

Moudon

Rue du Temple 10
Case postale 32
1510 Moudon

Penthalaz

Place Centrale 3
Case postale 7
1305 Penthalaz

Romanel

Centre commercial Romanel
en Félezin
Case postale 105
1032 Romanel

Lausanne region

Bellevaux

Route Aloys-Fauquez 116
Case postale 30
1000 Lausanne 8

Bergières

Avenue Bergières 42
Case postale 60
1000 Lausanne 22

Bussigny

Chemin du Parc 6
Case postale 44
1030 Bussigny

Chauderon

Place Chauderon 8
Case postale 300
1001 Lausanne

CHUV

Rue du Bugnon 46
Case postale 8
1011 Lausanne

Crissier

Centre MMM
Case postale 210
1023 Crissier

Ecublens

Chemin du Croset 3
Case postale 47
1024 Ecublens

Epalinges

Place de la Croix-Blanche 17
Case postale 119
1066 Epalinges

La Sallaz

Route d'Oron 2
Case postale 32
1000 Lausanne 10

Lausanne - Cour

Avenue de Cour 38 A
Case postale 163
1000 Lausanne 3

Lausanne - Gare

Place de la Gare 10
Case postale 192
1001 Lausanne

Ouchy

Avenue d'Ouchy 76
1006 Lausanne

Prilly

Route de Cossonay 21
Case postale 48
1008 Prilly

Renens

Rue du Midi 15
Case postale 608
1020 Renens

UNIL

Internef - Dorigny
Case postale 125
1015 Lausanne

WTCL

Avenue Gratta-Paille 2
1018 Lausanne

Lausanne - St-François

Place St-François 14
Case postale 300
1001 Lausanne

Lavaux region

Chailly

Pont-de-Chailly
Case postale 79
1000 Lausanne 12

Cully

Place de l'Hôtel de Ville 7
Case postale 16
1096 Cully

Lutry

Route de Lavaux 166
Case postale 265
1095 Lutry

Mézières

Rue du Théâtre 2
Case postale 41
1083 Mézières

Oron-la-Ville

Le Bourg 16
Case postale 103
1610 Oron-la-Ville

Pully

Rue de la Poste 8
Case postale 62
1009 Pully

Savigny

Place du Forum 2
Case postale 120
1073 Savigny

Morges region

Allaman

Littoral Centre
Route de la Gare 10
1165 Allaman

Aubonne

Chemin du Mont-Blanc 2
Case postale 37
1170 Aubonne

Cossonay

Rue des Etangs 5
Case postale 35
1304 Cossonay-Ville

Denges

Route de Genève 107 B
Case postale 74
1026 Denges

Morges Hôtel-de-Ville

Place de l'Hôtel-de-Ville 2
Case postale 144
1110 Morges 1

St-Prex

Route de Rolle 2
Case postale 24
1162 St-Prex

Nord vaudois region

Chavornay

Route d'Yverdon 2
Case postale 62
1373 Chavornay

Grandson

Place du Château 8
Case postale 24
1422 Grandson

Le Sentier

Grand-Rue 36
Case postale 62
1347 Le Sentier

Orbe

Place du Marché 9
Case postale 27
1350 Orbe

Ste-Croix

Rue Neuve 2
Case postale 17
1450 Ste-Croix

Vallorbe

Rue de l'Horloge 1
Case postale 36
1337 Vallorbe

Yverdon-les-Bains

Rue des Remparts 17
Case postale 256
1400 Yverdon-les-Bains 1

Nyon region

Coppet

Rue Froide 1
Case postale 30
1296 Coppet

Gland

Avenue du Mont-Blanc 14 A
Case postale 338
1196 Gland

Nyon

Rue Perdtemps 6
Case postale 1048
1260 Nyon 1

Rolle

Grand-Rue 60
Case postale 1208
1180 Rolle

Signy

Centre Commercial
Rue des Fléchères 7A
Case postale 245
1274 Signy-Centre

Riviera region

Blonay

Route du Village 7
Case postale 91
1807 Blonay

Chexbres

Grand-Rue
Case postale 113
1071 Chexbres

Clarens

Avenue Vinet 15
Case postale 51
1815 Clarens

La Tour-de-Peilz

Grand-Rue 38
Case postale 64
1814 La Tour-de-Peilz

Montreux

Grand-Rue 50
Case postale 1026
1820 Montreux

Vevey - Gare

Place de la Gare
Case postale 160
1800 Vevey 1

Vevey - Nestlé

Avenue Nestlé 55
Case postale 353
1800 Vevey 1

Thanks

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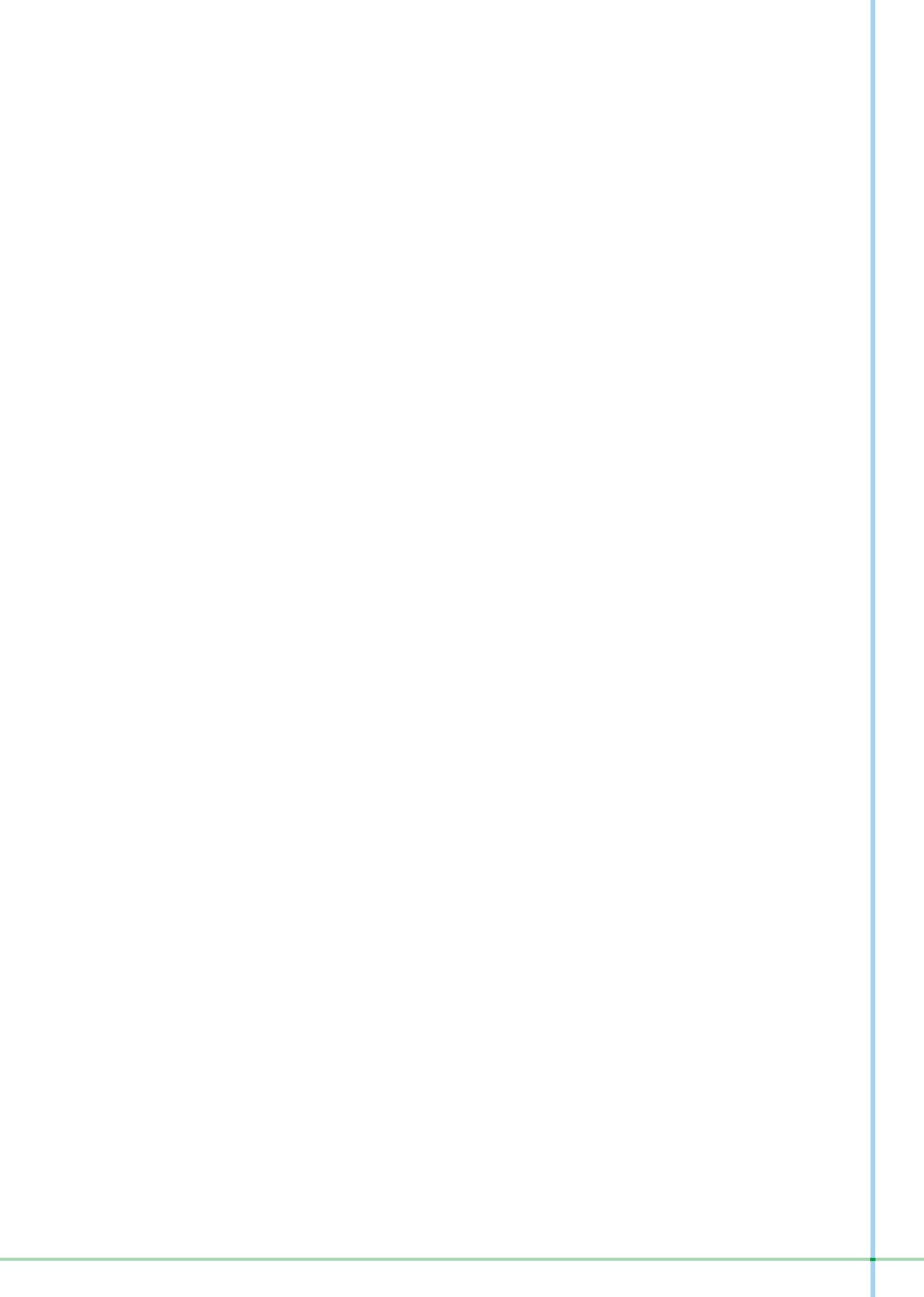
Rosie Wells

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